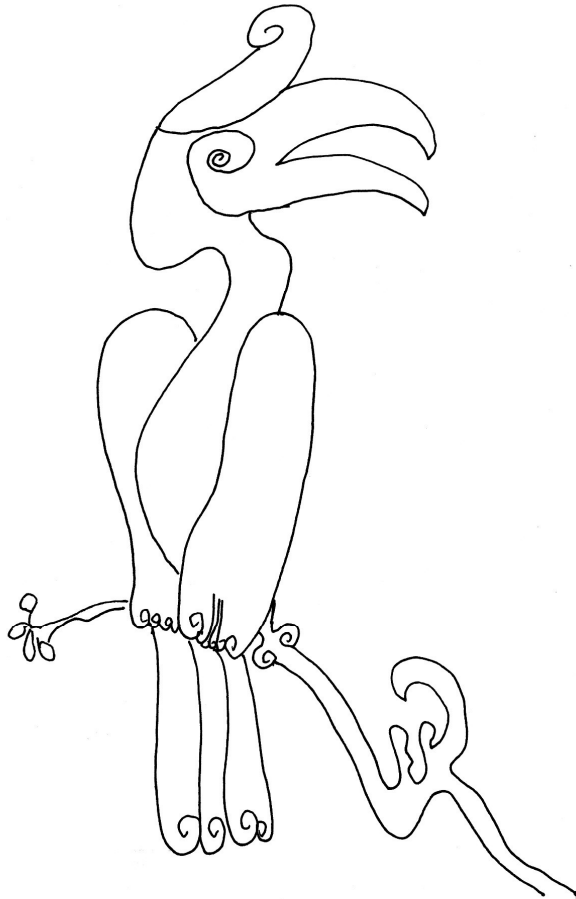


The Money Story

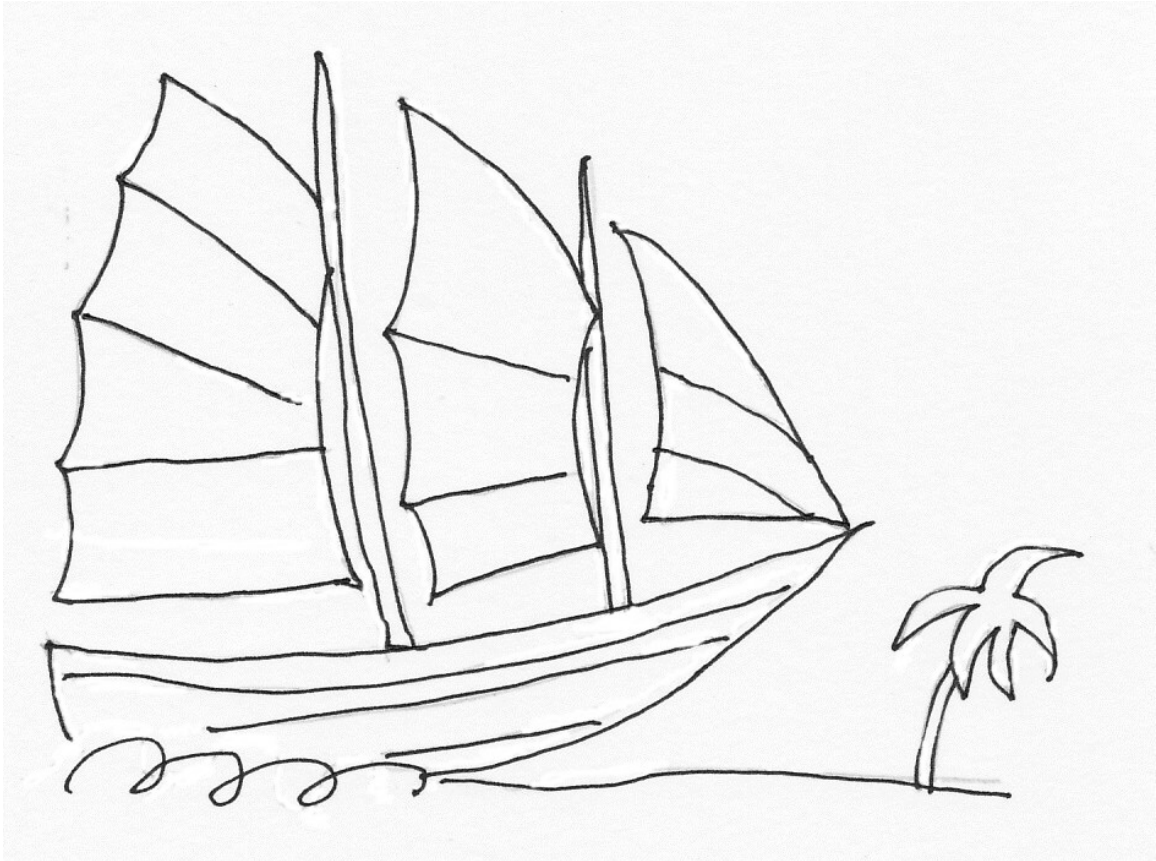
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Bartering and the Establishment of Value

Once upon a time, a Chinese merchant got stranded on a desolate beach. There was still a lot of food supply in his junk boat hence the men didn't mind the rest, while their boss tried to figure out how to get them out of there. However, they changed their minds the following morning when they saw fifty men, with standing tall feathers growing out of their heads, approaching the ship. The strangers had black teeth, shiny swords and tasseled loin-cloth that they wore down to their ankles. Captain Hong ordered his men to bring out ten jars of Chinese rice wine.

He bowed and said in Malay, "Greetings brave warriors. Forgive me for intruding upon your land without permission, but the storm had pushed my ship too close to shore and now it is stranded in the sand. I hope you will allow us to stay until we can repair our vessel and let the high tide take us back to sea again."

The oldest Iban warrior, *Tuai* Ladong, replied in the same language. "You and your men may stay, as long as you promise not to harm or steal from my people."

As he spoke, a cloud of swiflets flew overhead like a spiraling whirlwind.

Captain Hong, true to his merchant pedigree, said, "No, I do not wish to do any mischief in your land. But I would like to trade."

"Trade, what is that?"

"It is the act of exchanging something that is yours for something that is mine."

"Yes, I know what you mean. We sometimes exchange rice for iron. Do you want rice?"

"Oh no," Captain Hong said. "We have enough rice to take us to our destination. We have some cloth in the ship that we can trade for the nest of those birds flying above our heads."

Ladong's eyes widened, then he turned to his men and translated the business proposal. The roar of laughter that issued made Captain Hong's smile warmer; bird's nest was useless to these people which meant that he could get more for each yard of silk.

The locals sat down on freshly cut coconut logs while the sailors brought out silk cloths for their inspection. Discussion began on how much nest should be brought in for a yard of silk. Some men complained that the work was too hard but were scoffed off by heartier, younger men who boasted that they could pluck and carry a thirty-kilogram-load of bird's nest back down to the beach within two days. Finally it was agreed that one yard of silk cloth would be traded for ten kilogram of nest.

Then Captain Hong proceeded to drink with the Ibans until dawn. His lieutenant made sure that the crew did not join them, lest his employer's negotiated rates be compromised.

NOTE:

Before trade can be conducted, there must be a perception of value for the two products about to be exchanged. In a free market, this value is established by negotiation. “Fair” value, however, can only be realized if both sides have enough information about each others’ needs.

In the above case, the Chinese merchant perceived that the Ibans appreciate cloth by the length of their loincloth. He also noted their distain of the product he asked for in return. He could start with an offer to pay for their effort alone, but there was always the danger of the headhunters finding out about the international value of bird’s nest from other merchants so he must try to find a balance. Hong wanted a long-term relationship with the natives because the squall of swiflets that flocked above his head numbered in the thousands.

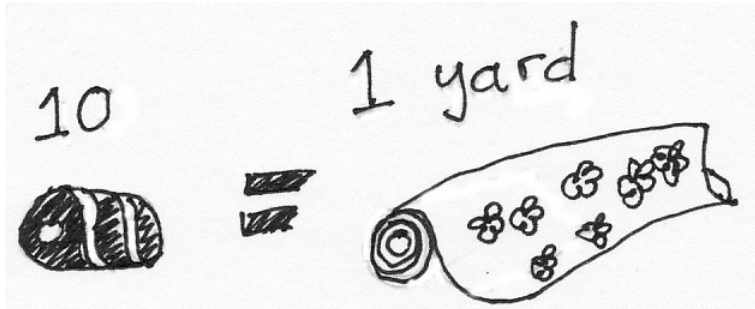
In Comes Money

Captain Hong was pleased with the basket loads of bird's nest the natives brought to his ship, but he was also aware that he needed to adhere strictly to his negotiated price of ten kilogram of nest to one yard of cloth. But the problem was that very few brought in loads with exact ten-kilogram units. Sometimes it was eight, sometimes twelve or even ten and a half. Either way, Hong did not want to give in to the under-ten's lest it would reduce the price of his silk cloth, neither did the Ibans wanted to exchange ten and a half kilogram for a yard, because that would be increasing the price of the cloth. On top of it all, no self-respecting Iban would want to wear a yard-long loincloth; a man should have at least 4 yards.

Then Hong recalled that he had ten jars of glass beads in his cabin. He calculated out a hundred yard of silk cloth to trade against one thousand beads as a medium of exchange. Again he opened negotiation with *Tuai* Ladong. He proposed to give one bead for every 100 gram of bird's nest.

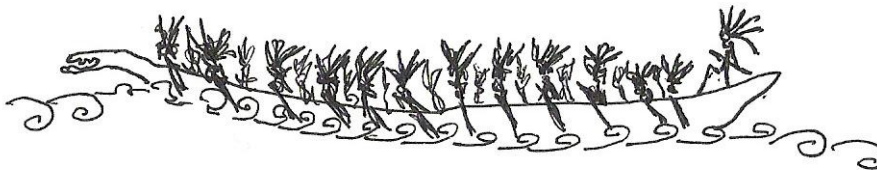


In that way, each man only need to collect these beads then use ten beads to buy a yard of cloth.



Tuai Ladong saw the sense in that new system. It meant that his people need not store large bulks of bird's nest in their homes until they get the amount they targeted. Yet he was also suspicious; what if Hong was trying to cheat him. He asked for a reference.

Hong gave him the name of *Tua Kampong* Usop in Mukah, who supplied his ship with fresh water and food. The Melanaus received glass beads in return for their products. *Tuai* Ladong took a longboat, and with the propulsion of twenty-two men, he rode north along the coast. He returned on the afternoon of the third day and announced that he was satisfied with the recommendations of Usop and the other traders in the trading post.



The men took to the bead system immediately. They even began exchanging goods amongst themselves for the beads. Hence, even the men who had obtained the length of silk they wanted continued to collect bird's nest so they could exchange them for beads which they could trade

within their community. Soon men who could not climb the cave walls for nest also had an opportunity to buy cloth by exchanging their surplus harvest or ironwork for beads.

Everyone was happy, especially Captain Hong because it meant that he could continue to expect more bird's nest as the introduction of the bead system had widen his market amongst the natives.

NOTE:

Money has only one function; to act as an intermediary for exchange. However, this system only works when a user trust the person who issue the currency. First and foremost, the user must believe that the issuer can maintain the value of the currency. Secondly, he must believe that the issuer will honor the exchange of this currency with another product of like value.

Captain Hong was the issuer of the new currency. However for the money system to work, *Tuai* Ladong must first believe,

1. that the merchant captain would not change the value of the bead; as in charging twelve beads instead of ten for a yard of cloth.
2. that Captain Hong has the ability of honoring the exchange; meaning that he will not run out of cloth to exchange for the number of beads being paid for the bird's nest, and
3. that the merchant will not turn down an offer of exchange.

Money also has a habit of creating new needs. Without trade, a person will only live within his skills hence there is no need to work beyond his own needs. However, when he participates in trade he is given the opportunity to gain more than what he can make by exchanging his surplus 'energy' with another person's surplus 'energy'.

More questions?

Does this mean that *Captain* Hong has to sacrifice his beads for the trade?

No. The first exchange is a bead for every hundred gram of bird's nest.

The reason for the first exchange is so that the second exchange of 10 beads for a yard of cloth can take place.

What if *Tuai* Ladong decides to keep twenty beads because his wife wants to make a necklace out of them?

Then *Captain* Hong still has two yards of cloth to sell elsewhere. He exchanged twenty beads for two kilogram of nest.

Investment on Expected Returns

A month later, a deck hand informed *Captain* Hong that they need to replace part of the hull on the stern-side of the ship. However they did not have enough wood and resin in the ship to repair the damage. It would take them at least three days to cross the sea to *Builder* Chung's dockyard in Singapore, but the lieutenant doubt if they could even make it halfway through.

Captain Hong went through his ship's inventory; there was no more cloth to trade but he needed materials to repair his ship else he cannot put out to sea. Again he approached *Tuai* Ladong with a business proposal. Hong asked if the chief would want to invest in his merchant ship. He showed him the ship's inventory; the whole cargo was worth 10,000 beads. The ship itself could be sold for 8,000 beads in the market.

Hong explained, "My next stop is Singapore, where I will trade porcelain and cloth for spices. Then I will return to China and sell my cargo. The profit from this trade will be shared with you based on the percentage of your investment."

Ladong agreed. Thirty local men went into the jungle to collect hardwood and resin. They chopped the tall trunks into planks with adzes. Each piece of plank was priced at 10 beads and *Captain* Hong's ship used up 120 planks. He also used up 600 beads worth of resin to waterproof the ship. The total investment the longhouse made came up to 1,800 beads or 10% of the merchant ship enterprise. (Note: the investment share below does not include operating expenses – eg. food and salary for the sailors.)

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