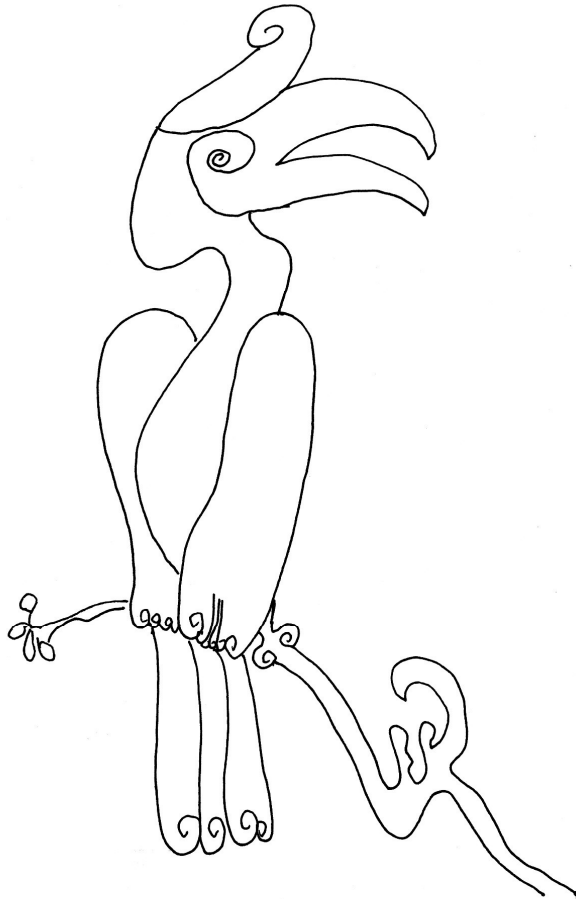


# The Money Story

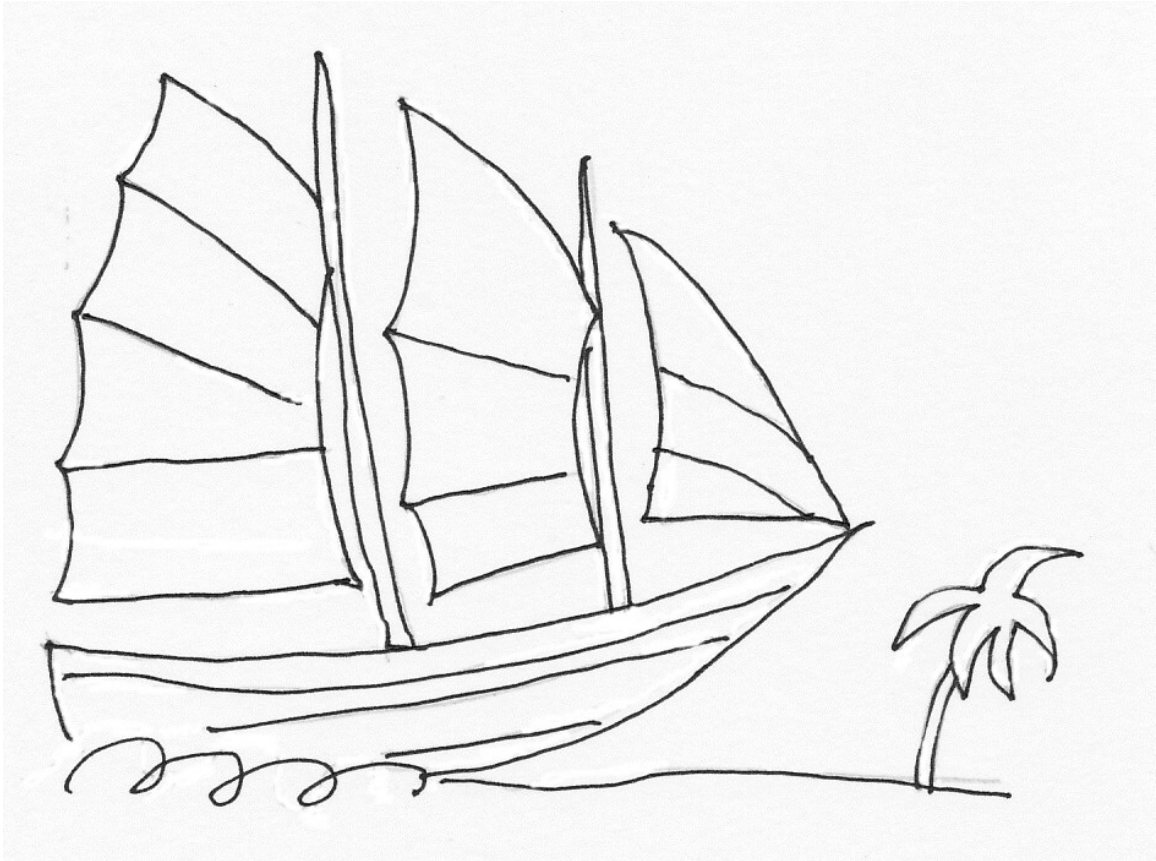
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## **Bartering and the Establishment of Value**

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.

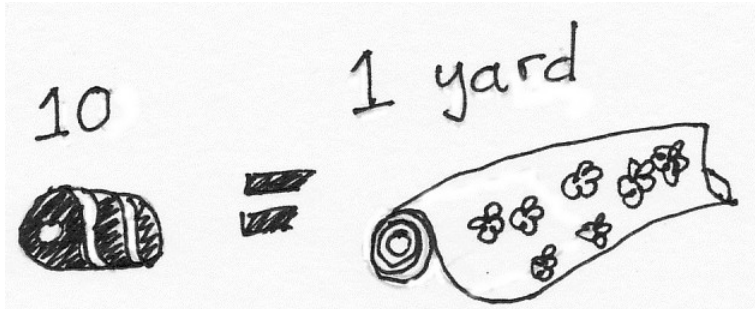
## In Comes Money

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.

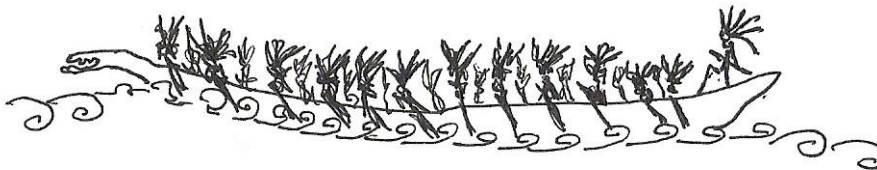


In that way, each man only need to collect these beads then use ten beads to buy a yard of cloth.



*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.)

Asset		Investment	
Cargo and Ship	18,000	Planks	1,200
		Resin	600
		Total	1,800
Percentage	100%		10%

The ship's lieutenant, who was also *Captain* Hong's nephew, stayed behind with nine other men: Ladong promised to treat them well. The younger Hong was also instructed by his uncle to study the locality and find out what other produce they have that can be traded in China or in the Malay Archipelago. When the tide rose that night, the ship glided away with many waves and promises of high returns in profit.

**NOTE:**

Modern investments usually come in the form of shares that are exchanged for money. However, there are forms of partnerships where individuals get shares in the business based on their contribution; skills, professional license, and assets. The investor must believe that he can get a good return in the long-term future else he might decide to spend his assets or skills on short-term fun. [Such as, chatting online with other hackers instead of working full-time in a software security company.]

In the story above, Hong left his nephew and nine other men as a sign of his contract with the people of Ladong's longhouse. Nowadays companies no longer need to provide hostages since they issue share certificates or contracts for your investment. This is possible because modern trade is being regulated by international trading and company laws.

## The Expansion of Wealth



*Nephew* Hong and his friends traveled into the jungle with the local men and learnt to hunt for their own food. Along the way, he noticed red rattan fruits, porcupines, monkeys, and bats. Ladong also showed him animal furs and horns of birds or stags.

Six months later, *Captain* Hong returned to Igan with a full load of merchandise. His trade in China was a huge success and the net profit he received was three times the cost of the cargo.

Sales	40,000 beads
Cost of Cargo	[-] 10,000 beads
Profit	<hr/> 30,000 beads

Ladong was pleased to receive 3,000 beads as part of the 10% share for his people. The people used this new wealth to buy jars, silver bells and more cloth from Hong. Based on his nephew's feedback, Hong again went into discussion with Ladong about the prices to set on other produce: bezoar stones from the bellies of monkeys and porcupines, red dye from ripe rattan fruits and *ikat* woven cloth.

The younger Hong and five men offered to stay behind as his uncle followed the trade winds to other lands. They built huts for themselves and their new wives as well as storage houses for the produce that the people brought to them for trade. Soon news began to spread into the interiors about strange men who would trade wonderful things for jungle produce. More things poured into the storehouses. The younger Hong began to pay 10% of all his profits to Ladong as a form of tax to gain his protection.

Business thrived as everyone made full use of their skills to find or make products to sell. They were disappointed that Young Hong was not interested in buying human heads, but at least he was partial to animal furs.

When *Captain* Hong again returned to the coast, he was pleasantly surprised to see the full storehouses. He was also very proud of the things his nephew had done.

**NOTE:**

International trade exists because different cultures have different needs and surpluses. Value is created by the prices that people are willing to pay for a service or a product. Hence value is based on functionality.

## **Borrowing Money to Create More Wealth**

The trading post on that remote beach of Igan began to teem with people who came from the interiors. They came to look and be seen, as well as to trade with Hong the Younger.

The young man was busier than ever, and with the help of his local wife, he managed to negotiate with new tribes that brought things to sell. Ladong also willingly acted as his referrer to the other chiefs and business thrived.

Just 2 months before Captain Hong's ship was to arrive, four men from Ladong's longhouse approached him for a loan. Their reasoning was; if young Hong could demand for credit from them for the goods they brought to his storehouses then they have every right to do likewise. Ladong explained that those men had found a new cave, but the walls were high and steep. They needed more tools and materials to build scaffoldings as ropes alone were no longer enough.

However the men did not want Hong the Younger to invest in their expedition as they did not want to share the profit with him. They were only willing to pay back the actual sum of beads, plus an interest of 10%. All in all they needed 100 glass beads.

Hong the Younger finally agreed to the loan after the men put up their rice harvest as collateral. Ladong also agreed to become their guarantor.

With the borrowed money, the group of men brought along newly made iron tools, thick ropes and sturdy planks with them. They returned to the beach a month later with four hundred kilogram of nests.

400 kg of nests		800 beads
Loan	[-]	100 beads
Interest	[-]	<u>10 beads</u>
Money owing		<u>690 beads</u>

**Note:**

When someone loans money there is always the risk that he cannot pay back the full amount. For that reason a prudent lender will always demand for collateral and a guarantor. The collateral must be something of monetary worth, and can be sold in the event that the borrower fails to pay the loan, so the lender can get his money back. The risk and trouble of lending out the money will be compensated in the form of interest.

Once the borrower pays back the full amount plus interest, he will get back full right on his things.

**Question:**

Will the lender collect the full amount on the collateral once it is sold?

No, he will only get the amount of money owed to him. As in the above example, if Hong the Younger sold the crops for 150 beads, then he will returned 40 beads to the families of the men.

Why is a guarantor needed then?

The guarantor's role is to vouch for the character of the borrower as well as to pay on his behalf if his collateral does not hold up to the borrowed value. For example, if the Hong had to sell the crops for 90 beads, then Ladong will be required to pay him another 20 beads.

Isn't it unfair that Hong still gets his money back whether the men were successful or not?

No, because if the men wanted Hong to share in the risk, they should have asked him to invest in their expedition. In that case, they would have to share the profit with Hong at the agreed rate. Say he gets an equal share of 20%;

Bird's nest	800 beads
20%	160 beads

If the men only pay back the loan and interest of 110 beads, they can split the remaining 690 beads 4 ways, which comes up to 172.5 beads each.



## **Conclusion**

When money was first introduced an object that is universally recognized as valuable is usually used. For example, iron coins can be melted down into knives, copper melted down into brassware while beads can be used as ornaments to show a person's wealth. Nowadays, currency has begun to exist for its own sake; hence certificates of different values are issued by federal governments to encourage trade inside and outside the country.

This is one reason why an investor checks the world news frequently; to make sure that his investment is under the influence of a good and fair government who, like Captain Hong, has the ability to honour the value represented by their currency.

## **Author's Note**

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