Economic Effects of the Spanish Conquest of the Philippines and Mercantile Theory

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This paper seeks to examine the immediate economic effects (within the first 75 or so years) of the Spanish conquest of the Philippines in the mid-16th century. Additionally, this paper hopes to determine whether colonial Spanish rule in the Philippines was consistent with mercantilist theory by comparing the actual economic effects to what mercantile theory hypothesizes they should have been. By examining Chinese labor in the Philippines, understanding the scale and importance of the Philippine galleon trade, and looking at land use, this paper will highlight and explore the overarching economic effects of Spanish rule in the Philippines. The conclusions of the study are as follows: while the effects of Spanish conquest on land usage were limited, the conquest had an enormous effect on the use of Chinese labor and on the galleon trade. Furthermore, considering that the Philippines in all likelihood were not profitable for the Spaniards, this paper concludes that Spanish rule in the Philippines did not coincide with the predicted effects of mercantile theory.

Preface

As it is, in the United States imperialism does not have as strong of an academic following as does European history or United States history. Furthermore, while curriculum and scholars on imperial history are most definitely present, they almost never focus on the early colonial Philippines, which seem utterly forgotten even in general discussions among both scholars and lay individuals. Such relegation to the virtual ash heap of scholarly and general research, debate, and discussion is severely unfortunate. Ignoring any area of history prevents people from obtaining a complete understanding of history in general, and ignoring the colonial Spanish Philippines—or Dutch Indonesia, Roman north Africa, Portuguese Mozambique, French Madagascar, or any other type of imperialism anywhere else in the world at any time in history—does not allow the imperial historian to obtain a fully accurate and complete understanding of imperialism as a general phenomenon. The lesser-known areas in the study of history in general and imperialism specifically must receive their due and deserved attention. This paper hopes to provide this attention to the Spanish Philippines.

Introduction: Mercantilism

Because this paper looks at the economic characteristics of the Spanish Philippines in the mercantile era and whether those characteristics coincide with mercantilist theory, it is essential to know the central traits of the mercantile system. Although each European power practiced mercantilism uniquely, historians have been able to discern its most defining features:

1) Centralization of state power. From the early to mid-16th century to the late 18th century, European states began to assume increasing responsibility in the administration of their societies. This centralizing tendency was accelerated by the fact that modern nations were forming. In Spain, for example, the three kingdoms of Castile, Aragon, and Navarre gradually united to form *Hispania*. This centralizing tendency had implications for the expansion of colonial rule: to fund their growth and military engagements within Europe, European states began the trend of colonial acquisition.

2) Tariffs and taxation. Emerging European nations, believing that wealth was limited and thus wanting to obtain as much of it as possible, sought to use their overseas colonies as sources of revenue. Europeans shaped their colonies' economies with the guiding belief that agriculture was the basis of wealth. While agricultural enterprises in colonies were run privately, the majority of the labor in the expanding empires was concentrated in agriculture and natural resource acquisition. As a result, European nations funded their growth by taxing the trade in raw materials extracted from their colonies. To obtain wealth for themselves and to prevent foreigners from obtaining wealth, nations also imposed tariffs on their colonies' overall trade. Because European nations saw wealth also in terms of precious metals such as gold and silver, so they established extensive networks to trade goods for these metals. As private trade flourished in these networks (often under the auspices of state chartered

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companies), the European nations intervened and collected taxes.

3) Royally chartered companies. Notable examples include the British East India Company or Dutch East India Company. Chartered companies had trade monopolies, granted by the crown, in areas such as slave trading or the transportation of certain goods.

As we shall see in our analysis, the traditional components of mercantilism fail to adequately characterize the Spanish Philippines.

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Despite a history of contact with the Philippine islands in the early 16th century, the Spanish did not conquer the islands until 1571, during an expedition led by explorer Miguel Lopez de Legazpi. Thereafter, the Philippines were administered by New Spain (also known as the Viceroyalty of Mexico) because of the latter's relative proximity to the islands, though effective Spanish control was limited to the island of Luzon, in the port city of Manila and the surrounding areas. From the very outset, the Philippines were uncharacteristic of other colonies of the period in that they did not maintain direct contact with its European colonizer. Nonetheless, the economic repercussions of the Spanish conquest were significant. The three most important economic trends of the Spanish Philippines during the mercantile era emerged within the first 75 years of the Spanish conquest: the introduction of Western notions of land tenure leading to the rise of landed estates, the rise and dominance of the galleon trade from Manila to Acapulco, and the quantitative and qualitative increase in Chinese immigration to the Philippines.

These trends reveal that the Spanish Philippines did not follow a traditional mercantilist route. The galleon trade did not involve the exchange of raw materials from the colony to the European country. Chinese immigrant labor in the Philippines was focused not on agriculture but on commerce. Agriculture was practiced minimally in the colony. Finally, it is even likely that the Philippines were not profitable for Spain. In sum, the Philippines were a most unusual colony for a European power to possess during the mercantile period because they did directly fit into the economic framework of the time.

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First and foremost, Spanish usage of Philippine land reveals that the colony, at least in terms of its economic effects, was atypical of other mercantilist enterprises, for agriculture was practiced on a small scale. One of the most significant economic changes that resulted after arrival of the Spaniards, however, a change that was not atypical of European expansion, was a change in the land tenure system. In pre-Hispanic societies, land was owned and used communally, tilled in groups that were brought together by chieftains who administered the land. Upon their arrival, however, the Spanish "introduced […] the notion of land ownership as opposed to land use, the concept that individuals and not merely groups could own land, that land itself was a source of wealth." In essence, they introduced private land tenure. As a result, those chieftains who once administered lands now owned them, with the cultivators under their control.[1] There was nothing abnormal about this pattern. Wherever European colonizers went, to varying degrees they tended to usurp indigenous cultural practices and replace them with their own.

The establishment of private land tenure not only changed Filipino land relations, but it also led to the private ownership of land by Spaniards, in turn leading to agricultural enterprise.[2*] Although initially, at least, estates did not take on the importance they did in Spain's American colonies, their existence in the Philippines was still notable. From 1571 to 1626, the Spanish Crown made around 200 land grants, marking the initial growth phase of colonial estates. To make such grants, the Crown acquired land in the Philippines in one of two ways: Either it would assume ownership of land not inhabited by indigenous Filipinos, or it would purchase land from them.

By the time estates had become established in the 1620s, they ranged in size from 15 square miles to 60 square miles; this was a gargantuan area compared to the average of 0.037 square miles of land owned by native Filipino families. While the native inhabitants survived on small plots, the Church and private landholders received the bulk of land. Such massive landholdings allowed individual Spaniards and the Church to reap economic benefits from the leasing of lands, which they practiced widely, receiving anywhere from 25 to 75 pesos per year in rent by the early to mid-

1 John Leddy Phelan, *The Hispanization of the Philippines: Spanish Aims and Filipino Reponses: 1565-1700* (Madison, 1959), 117.

2 * The data on usage and agricultural enterprise that follows applies solely to the province of Tondo, near Manila.

17th century.[3]

Landed estates in the Philippines had two main uses: ranching and agriculture. In 1606, Manila had 24 cattle ranches. In 1615, one such ranch was valued at 6,500 pesos, an approximate value for the average worth of ranches during the first 50 to 75 years of Spanish rule. As early as 1659, however, ranches came into decreasing use in favor of agriculture, possibly because of the need to increase food supplies or because new Spanish immigrants began to focus less on the galleon trade. Most agricultural estates produced rice, although small amounts of land were dedicated to fruit, tobacco, and sugar. The average annual income of agricultural estates (farms and ranches) during the first 75 years of Spanish rule was about 2,300 pesos. Using a total of 24 cattle ranches, as mentioned above, Philippines cattle industry would have produced an annual income of only 55,200 pesos, and their total worth would only have been 156,000 pesos, indicating that agriculture was a small component of the Philippine economy.[4] Thus, in terms of agriculture, the Philippines were a mercantile oddity because farming and ranching produced little wealth in the colony.

In fact, private land holdings and the resulting attempts at agricultural enterprise were the exception to Spanish economic endeavors, not the norm. Interestingly, neither sustained the Philippines, as usual mercantilist practice would have dictated. As it turned out, until the mid-1700s,[5] the galleon trade

> "discouraged Spaniards from tilling the soil, for by purchasing Chinese luxury items which arrived each year in Manila and shipping them to Acapulco for sale at the annual fair, Spaniards could reap high profits with a minimum of labor. Thus the galleon trade, not agriculture or cattle raising, became the principal source of wealth for Spaniards in the Philippines."[6]

With respect to the role of agriculture, then, the Philippines did not follow a mercantilist path. Taking into consideration non-cattle ranches as well as cattle ranches and estates, Philippines agriculture and ranching produced only several hundred thousands pesos worth of income annually. This was a minimal amount and would not have allowed the Philippines to grow as it did.

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This leads us to the next significant economic effect of the Spanish conquest of the Philippines: the rise of the galleon trade, which, while being the very heart of Spain's mercantile enterprise not only in the Philippines but also in Asia for over two centuries, did not coincide with traditional mercantile practice. At its core the galleon trade was simple: it linked China and Mexico through the Philippines. Spain was not directly involved, and the Philippines served only as a point of exchange for goods, not as a source of raw materials. Silver from the Americas would leave via Acapulco, on the southwestern coast of Mexico, headed for Manila. Goods, most notably silk, would leave via the southeastern coast of China, also headed for Manila. In Manila, the silver and the silk would exchange hands: the Chinese merchants would take silver back to China, while Spanish merchants would take Chinese goods back to Mexico.[7] High demand for silver in China and high demand for silk in Mexico were met, and neither the colonizing country nor raw materials were involved.

Almost immediately after arriving in 1571, Spaniards began to see the potential for trade with China. As a result, they made concerted efforts to establish good relations with Chinese merchants in the area. In its first 40 years the galleon trade grew quickly, unhindered by cumbersome restrictions. Commerce increased, bringing with it Chinese immigrants as well as merchants from all over Asia.[8] In its first decade the galleon trade was not taxed and took place at several ports in the Philippines. Although the Crown soon decreed that the trade would be taxed and could only take place in Manila, the galleon trade continued to grow, with Peru also becoming involved, trading silver for Chinese silks. By the early 1590s, a total of 12 million pesos had already been traded, and the trade was averaging 2 to 3 million pesos a year, most of which was headed for China. This expansion continued into the 17th century. By 1602, approximately 5 million

3 Nicholas P. Cushner, *Landed Estates in the Colonial Philippines* (New Haven, 1976), 23-34.

4 ibid, 37-44

5 Paula De Vos, "A Taste for Spices," *A Journal of Pacific Maritime History*, Vol. 41 No. 4 & 42, 1 (2005 & 2006), 3.

6 Cushner, 24

7 Martha N. and John Hoyt Williams, "The Route to Riches," *Americas*, Nov.-Dec. 1984, 2.

8 Robert Ronald Reed, *Hispanic Urbanism in the Philippines: A Study of the Impact of Church and State* (Manila, 1967), 110. Hereafter, "Reed"

pesos per year were being shipped from the Americas for Chinese goods.[9] Throughout the 17th century, approximately 2 million pesos worth of goods were traded every year on average.[10] Clearly, the galleon trade dwarfed and supplanted Philippine agriculture as the foundation of the colony's economy, in contrast to other colonies of the time, in which trade complemented agriculture through the exchange by shipping of raw goods and finished products.

The rapid rise of the galleon trade caused significant alarm in Spain. One major concern was voiced by the Andalusian textile sector, which began to see falling textile prices as Chinese textiles flooded into the Americas. Ironically, the Philippines had created competition for the industries of Spain because of finished Chinese goods being traded through them. Colonies were supposed to support their "mother countries" and the industries of the mother countries; the Philippines threatened them. Another concern was the fact that so much silver was leaving Spanish hands. Contrary to what economic practice at the time dictated, the Philippines did not allow for wealth to be amassed. As a result of these concerns, the Crown instituted a number of regulations restricting the galleon trade. In 1593, it decreed that only two ships could be involved in the galleon trade every year, one from Manila to Acapulco and one on the opposite route. Additionally, Chinese goods sent from Manila to Acapulco could be valued at only 250,000 pesos and could be sold for a maximum of 500,000 pesos.[11] Moreover, in 1631 the Crown prohibited all trade between the Philippines and Peru.[12]

The patterns established and the regulations instituted in the first decades of the 17th century remained relatively unchanged through the 1600s. As average trade numbers for the 17th century reveal, however, actual trade significantly surpassed legally permitted trade. Importantly, though, the Philippines did not satisfy traditional mercantile goals. During the mercantilist era, European nations were acquiring colonies in order to gather wealth for themselves, but through the Philippines, wealth was leaving Spain and Mexico for foreign hands.

Indeed, the galleon trade in the Philippines was in stark contrast to what mercantile theory would have predicted. Although goods and silver flowed between Mexico and China through the Philippines, the trade did not involve raw materials being extracted from the colony in order to be exchanged for finished products from the colonizing country. The colony only acted as a point of exchange for goods and not as a source of resources, and the mother country was not even directly involved in the trade.

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The economic effects of the Spanish conquest did not parallel normal mercantile practice because of the nature of the increase in Chinese immigration to the Philippines as well, for the massive amounts of Chinese labor that arrived after the Spaniards focused not on agriculture but on the galleon trade.

Because of the proximity of China and the Philippines to one another, the Chinese and the Filipinos had had some commercial contact through passing Chinese junks even before the Spanish arrived. When the Spaniards conquered the islands in 1571, 150 Chinese settlers had already established themselves there.[13] The arrival of the Spanish, however, changed all of that. For the Chinese, the arrival of the Spanish meant economic opportunity vis-à-vis the galleon trade. Consequently, in the first few decades after 1571, the Chinese population in the Philippines grew rapidly. By 1586, there were around 10,000 Chinese in the Philippines. In 1603, when anti-Chinese violence erupted, 20,000 were *killed*; by 1621 the Chinese population had increased back to 20,000,[14] revealing its resiliency—and hinting at its importance.

Indeed, the Chinese were crucial to the survival of the colonial Philippine economy. Chinese laborers served many functions in Philippine society, and their labor was not limited to any one field but spanned positions of "fishermen, gardeners, hunters, weavers,

9 Katharine Bjork, "The Link that Kept the Philippines Spanish: Mexican Merchant Interests in the Manila Trade, 1571-1815," *Journal of World History*, spring 1998, 18. Hereafter "Bjork."

10 Dennis O. Flynn and Arturo Giraldez, "Spanish Profitability in the Pacific: The Philippines in the sixteenth and seventeenth centuries," *Pacific Centuries: Pacific and Pacific Rim history since the sixteenth century*, ed. Dennis O. Flynn, Lionel Frost, and A. J. H. Latham (New York, 1999), 27. Hereafter "Flynn."

11 Marciano R. De Borja, *Basques in the Philippines* (Las Vegas, 2005), 60. Hereafter "De Borja."

12 Bjork 19

13 Edgar Wickberg, *The Chinese in Philippine Life: 1850-1898* (New Haven, 1965), 3-4. Hereafter "Wickberg."

14 Henry Kamen, *Spain's Road to Empire: The Making of a World Power, 1492-1763* (New York, 2002), 207-8. Hereafter "Kamen."

brickmakers, lime-burners, carpenters, iron-workers, tailors, cobblers, bakers, meat-vendors, candle-makers, confectioners, painters, apothecaries, silversmiths, food-peddlers, […] silk merchants [,] sculptors, locksmiths, and masons."[15] In addition, the Chinese performed another vital function: they housed the physical trading that ran the colony through the galleon trade. For the first several decades after the arrival of the Spanish, the Chinese were limited to Manila. Moreover, they were segregated in an area known as the Parian. It was in the Parian, under the auspices of the Chinese, where goods were exchanged for silver. Furthermore, while Chinese merchants from the mainland were responsible for bringing the goods, the Chinese in the Philippines were responsible for packing the goods into ships headed to Mexico. The Chinese were crucial to the business of packing goods, inherently a very important task. Since the Spanish Crown limited the amount of trade that could take place between China and Mexico, the Chinese packers shrewdly packed goods in such a way as to exceed the limits set by the Crown.[16]

The Chinese faced antipathy from the Spanish and the Filipinos, who viewed Chinese economic pervasiveness and success with jealousy. Despite the fact that the Chinese "filled occupations which the Spaniards scorned and for which the [Filipinos] were believed unsuited,"[17] the Chinese faced sporadic violence from the Spanish and even from the Filipinos, who were, as one historian phrased it, "always willing to get rid of" the "fundamentally peaceful" Chinese.[18] In 1603, Spanish authorities, with the direct assistance of indigenous Filipinos, suppressed a Chinese insurrection by murdering 24,000 Chinese inhabitants—almost the entire Chinese population in the Philippines. In response to a Chinese rebellion in 1610, the Chinese population of Manila was segregated in the Parian. In 1639, when the Chinese rose up against Spanish repression, another 23,000 were killed.[19] So crucial were the Chinese to the galleon trade, however, that the 1603 massacre led to an economic depression in the island, halting all trade for one year. Indeed, whenever the Chinese were killed in large numbers after revolting, the colony underwent economic stagnation, since no one was willing or able to do the fundamental work that only the Chinese performed.[20]

Chinese immigrants were the backbone of the Philippine economy, but because the latter was based on the galleon trade and not agriculture, Chinese labor was centered in commerce and trade. This was in contrast to what mercantilist theory would predict. Since European nations wanted to use their colonies as sources of raw materials, labor in other colonies would have been concentrated in agriculture. As the case of the Chinese reveals, this was not the case in the Philippines, for the Philippines predominantly acted as a location for trade, not a source of raw materials.

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Finally, in determining whether or not the Philippines fit the mercantile mold, it is useful to see what economic effect the conquest had on the Spanish crown itself, since the purpose of colonial acquisition was to make a profit. Was keeping the Philippines profitable, at least in the short term of the first 75 years after acquisition? The usual answer to this question has been a resounding "No." Most scholars have argued that the Philippines did not produce enough revenue to provide the Crown a surplus and only drained the Crown's coffers with high administrative expenses. In addition, trade restrictions prevented the galleon trade from providing substantial tax revenue. Some recent historians, however, have argued that the Philippines did provide profit for the Crown. Based on the average of 2 million pesos per year for galleon trade, the Philippines are approximated to have provided around 218,000 pesos per year in profit. The scholars proposing this number have called it "tentative," however, because they arbitrarily estimated the gross benefit of the galleon trade to the crown.[21] As a result, it is safer to follow the traditional, thoroughly argued conclusion that the colony was not profitable. Thus, in yet another way, the Philippines were an unusual mercantile colony. Even though the ultimate goal of the Spanish crown, in accordance with obvious economic norms, was to maximize its profit, it was willing to sustain losses in order to retain the Philippines.

Conclusion: A Mercantile Anomaly

Examining the first 75 years of Spanish rule in the Philippines without looking at how that rule fits

15 Reed 137
16 ibid 131-2
17 Wickberg, 8
18 Kamen, 208
19 De Borja, 77
20 Reed, 132 & 138
21 Flynn, 25-31

into a general description of mercantilism would be incomplete. Judging from the economic ramifications of Spanish acquisition, it becomes clear that general mercantile theory only partially describes the Spanish Philippines. In the first 75 years, the centralizing Spanish state did attempt to limit the galleon trade and even encouraging agriculture. But it was not successful, as the galleon trade's 200+ year life span suggests. Thus, while in theory the colony of the Philippines was supposed to allow the Spanish Crown to accumulate as much wealth as possible through agriculture, in practice the exact reverse occurred. The galleon trade not only caused silver to leave Spanish hands through trade with the Chinese and through smuggling (which meant that the Crown collected less tax revenues, the maximization of which was a key feature of mercantilism), but it also prevented agriculture from flourishing because trade was so profitable. Spaniards had no incentive to leave the galleon trade to farm or ranch, for they would have made less money doing so. In addition, by attracting capital as well as labor from agricultural enterprise, the galleon trade morphed the traditional mercantile relations between European nation and its colony. The Philippines provided Spain not with indigenous raw materials but with finished goods from China. Moreover, private traders from China and from Mexico ran the galleon trade; Spain issued no royal charters for monopoly companies for the Philippines, unlike in many other colonies, in which charter companies dominated. As a result, the Philippines stand out as a colonial anomaly. Isolated from Spain; they did not follow a traditional mercantilist path. The Philippines do not fit well into traditional mercantile theory.

Afterword

So what does Spanish imperialism in the Philippines during the mercantile era say about mercantile imperialism in general if the Philippines did not meet Spain's mercantile goals yet Spain still chose to retain them?

The significance of the Spanish Philippines in relation to mercantile theory is twofold. First, it reveals that when examining the mercantile empires, non-economic factors need to be given equal consideration relative to economic factors. The case of the Spanish Philippines is such that economics may not have been the main reason for keeping the colony. As some historians have suggested, religious or strategic reasons may have been more important.[22*] Some assert that Spain kept the Philippines with the hope of spreading Christianity into China, while others argue that the Philippines' central location in the Pacific, near the colonies of other European powers, gave Spain a naval advantage.

Secondly, and just as notably, the example of the Spanish Philippines reveals that the broad characteristics scholars have used to describe mercantile empires do not always provide an accurate picture of every colony in the mercantile era. Mercantile "theory" is indeed not a coherent set of principles that can be applied to every situation with absolute certainty. For example, as the weakness of agriculture in the Philippines reveals, colonial economies did not always operate according to the general archetype proposed by scholars: it was a major source of neither agricultural goods nor commodities. Ultimately, the Spanish Philippines show that mercantile theory needs to be applied carefully when evaluating European colonies during the mercantile period.

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22 * see Flynn

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