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Spanish commercial policy and the Philippines: an integrated perspective

by

Emmanuel S. de Dios

Professor Emeritus, UP School of Economics, Diliman, Quezon City

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Emmanuel S. de Dios*

Abstract

We present an historical background and narrative of Spanish policies affecting Philippine trade that maps them onto the changing landscape of influential ideas and emerging political and economic exigencies confronting the colonizing power. An integral or global perspective is adopted that complements a purely colonial or insular viewpoint. This provides a fuller and at times novel understanding of the changes observed in Philippine commercial history during the period, the intended purposes of colonial policies, and the reasons for their failure or success.

JEL Codes: N75, N73

Keywords: 16.C-19.C Spanish colonial commercial policy; Manila-Acapulco galleon trade; Mexico City merchant lobby; Atlantic *flota* system; Spanish mercantilism; Bourbon reforms; Royal Philippine Company; Consulate of Manila; late Spanish liberal trade and investment policies

1. The period before: Manila caught between merchant lobbies

Until halfway into the 18.C, Spain's commercial policy as it affected the Philippines was still dominated by the renowned Manila-Acapulco trans-shipment or carrying trade. Inherited from the earliest years of Spanish occupation, this system was one where goods sourced from Asian countries—especially China and consisting of silks, porcelain, and other goods—arrived in Manila to be traded against Mexican silver. Braving the dangerous trans-Pacific route pioneered by the Magellan voyage, the Galeón de Manila or Nao de Acapulco carried off oriental goods outbound from Manila and returned with the silver ingots produced by Mexican and Peruvian mines as payment. For almost two centuries (between 1570 and 1750) there was a high demand for exotic oriental goods from Spain's American colonies and from Spain itself. This was matched by an equally avid Chinese appetite for the output of American silver mines.[1]

Founded on what was essentially a voluntary export restraint (or conversely, an import quota depending on whose point of view is considered[2]), the trans-Pacific galleon trade was an attempt to mediate between competing objectives. In principle, the profits resulting from the trade were meant to sustain Spain's most distant colony by way of extending a privilege to the "residents and inhabitants" (*vecinos y habitantes*) of Manila. The 1593 decree of Felipe II (See: *Recopilacion* Book 9, Title 45, Law No. 1; 11 January 1593) prohibited persons from New Spain trading in the Philippines and granted the exclusive right of trading with New Spain to the (Spanish) inhabitants of the archipelago. An important provision of the 1593 decree was to declare the Pacific galleon trade a crown monopoly, with the costs of constructing and outfitting all vessels financed at the cost of the crown. This essentially forbade private merchant vessels from plying the route, an emerging possibility in the previous period (See **Box 1.**) Moreover, the trade was

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* Professor Emeritus, School of Economics, University of the Philippines. English translations of Spanish-language sources are my own. Helpful comments from Alfredo Paloyo and Adrian Mendoza are acknowledged but any remaining errors are my own. Additional comments may be sent to esdedios@up.edu.ph.

[1] On the complex reasons for the high Chinese demand for silver, see Glahn [1996:75]. The reasons relate mostly to the failed attempts by Chinese authorities to introduce a common currency, whether as paper money or bronze coin. By the 1430s, under the Ming, paper currency was abandoned and it was required that large transactions, such as taxes on land, should be paid in silver. Viewed more broadly, a growing population, economic growth, and increasing commercialization meant a rising demand for money in China [Findlay and O'Rourke 2007: 220].

[2] In the standard theory of voluntary export restraints, exporting country A "voluntarily" agrees to restrict its exports to country B as a measure to protect the latter's domestic industry, and typically to avoid harsher punitive actions. From another perspective, it is simply an import quota imposed by B on A's exports. The original instance this device and use of the term was the 1981 deal on automobiles between the U.S. and Japan under which the latter agreed to limit its automobile exports to the latter.

throttled by limits on the value, frequency, and destination of shipments owing to the ostensible need to protect the domestic industries—chiefly of textiles—of both the Peninsula and New Spain (i.e., Mexico).[3] (See **Table 1**.)

Box 1. *Unrestricted early galleon trade*

A little-noted fact is that the galleon trade in its earliest period 1575-1610 operated on a more or less unregulated basis. At that time a far greater number of ships—sometimes as many as four every year*—plied the Pacific route, with ships putting in not only at Acapulco but also at Lima and other American ports. Though the exact number is unknown, some of the ships that sailed were possibly either privately owned, financed, or outfitted by merchants of Manila or Mexico.

The notion of a privately-run Pacific route was hardly far-fetched, since the merchants ships system plying the opposite Atlantic circuit were private vessels owned by the merchants of Sevilla. The government's role in that system was restricted to providing armed ships as escorts. In the same manner, it was seriously considered in some official quarters that the Manila-Acapulco trade might also be given over entirely to the private sector. The Mexican viceroy Manrique de Zuñiga† in 1587 proposed to Felipe II to expand a practice (effectively a reverse-BT scheme‡) where galleons built by the crown (including those from the Philippines where costs were lower) would be sold to merchants for these to operate on their own account. Villamanrique cited two instances where this had already been done successfully: he mentions the ship *Sant Martin Visto*§ as well as another unnamed vessel. He suggested that as more galleons were built, there would be merchants "who are interested in buying them and in sending them away on voyages". To further encourage the practice, the viceroy raised the duty paid by merchants for loading onto the crown's ships, "to oblige the merchants, by incurring this duty, to turn their attention to buying ships, in order to economize and enjoy greater profits" [Blair and Robertson VI: 295].

Left to develop by itself, it is possible that the Pacific route might have flourished under largely private sector efforts, supported mostly by Mexican capital. Manuel Azcárraga [1872] writing centuries later saw the potential and missed opportunity for such a scheme. However this would have meant an unregulated flow of Asian goods into the Americas, which would have harmed the interests of the Cadiz merchant lobby. The 1593 decree of Felipe II closed the door to such efforts and instead established the Pacific route as the crown monopoly with quantity limits and restrictions on American participation in the trade.

(*) This estimate is from Fish [2011: 492] although her list of galleons leaving Manila is incomplete. (†)Alvaro Manrique de Zuñiga (1540s-1590), Marquess of Villamanrique, was viceroy of Mexico in 1585-1590. (‡)In the usual build-transfer scheme, it is the private sector that finances the construction which then transfers ownership to the government. This is reversal of roles in that scheme. (§)The *San Martin* is recorded as sailing from Manila to Acapulco in 1586 [Fish 2011: 295].]

At least on paper, all this would suggest that the intended main beneficiary of the system was the Spanish colony in the Philippines—or in practical terms, Manila—while the those negatively affected and opposed to it were Peninsular textile producers and exporters. Azcárraga's [1871] narration of the policy debates surrounding the galleon trade depicts the main protagonists as the Manila "city and commerce" (*ciudad y comercio*), on the one hand, and the lobby of Peninsular merchants in Cadiz and Seville, on the other.

Table 1. Quotas in the Manila-Acapulco galleon trade

	Value of outbound cargo (pesos)	Value of allowable returns (pesos)
Pre-1593	No limit	No limit
1593	250,000	500,000
1702	300,000	600,000
1735	500,000	1,000,000
1779	750,000	1,500,000

Source: Yuste López [2007: 36, Cuadra 1]

[3] Anachronism and geographical inaccuracy notwithstanding, "Mexican" and "New Spanish" will be used interchangeably in what follows, referring to the vice-royalty of New Spain. Similarly, unless otherwise specified, "Peru" will refer to the historical vice-royalty of Peru, which covers a larger geographical than the modern nation of today.

Subsequent research, however, provides a clearer picture of the real global interests involved and the larger beneficiaries from the push-and-pull over trade restraints. In fact, the dominant interests with the largest financial stakes were: (a) the lobby of merchants in Cadiz/Seville and (b) the merchant community and lobby of Mexico City (in New Spain) and to a lesser extent in Lima, Peru. By contrast, and despite the paper rationale for the trade, concerns for Manila and Philippine interests were subsidiary at best. These two powerful lobbies found formal expression in merchant guilds (*consulados de comerciantes* or *mercaderes*) that represented their interests. The guild or consulate of Seville merchants[4] was formed in 1543; that of Mexican merchants[5] was authorized in 1592 [Gasch-Tomás [2019: 95 & 96]. (By contrast, a guild of Philippine merchants would not be authorized until 1769.)

In particular, the central role and agency of the Mexican merchant community has received greater attention from recent scholarship. Far from being a mere appendage to the Crown and faithful executor of Peninsular commercial policy, the large Mexico City merchants (sometimes referred to as *almaceneros*) represented an abiding and coherent formation from the 17.C until the middle of the 18.C, one that had a clear view of its own interests and possessed political power to lobby in its own behalf (see, e.g., Hoberman [1977], Bjork [1998], Bonialian [2010], Escamilla Gonzalez [2012], Yuste López [2007], and Valle Pavón [2016]).

Observing the situation by the beginning of the 18.C, Escamilla Gonzalez [2012: 14] writes:

> …New Spain lived in a situation of de facto autonomy with respect to the weakened metropolis, moderated only by the sending to the viceroys and governors of orders that found little compliance, thanks to the thousand forms of resistance to authority practiced by colonial interests.

At stake for both Andalusian and Mexican merchant lobbies was the burgeoning American market for finished goods. Coatsworth [2006: 240-241] writes that "[i]n the fifteenth and sixteenth centuries, the most prosperous regions of the Iberian New World probably generated per capita incomes at least comparable to (and probably higher than) the most advanced regions of the Old." This assertion is validated by Maddison's [2007: 88 and 379, Table 2.7 and Table A.4] reconstructions of national income: Mexico's estimated GDP in 1500, was 71 percent of Spain's, and its per capita income was 64 percent of the latter's.[6] This created a sizeable consumer demand from the colonial ruling elites, particularly the creoles and mestizos of the capital, but also a demand for lesser quality goods from the lower orders of people and more distant regions.[7] Aside from incomes, Gasch-Tomas [2019: 165ff] also points to social and cultural factors that caused the demand for Asian goods to be higher in New Spain than in the Peninsula. Peninsular Spain was more heavily constrained by tradition and a strict social hierarchy, which led to a conservatism in fashion and a hesitance to adopt exotic products and materials. In the Americas by contrast, newfound wealth, greater social and ethnic mixing, and the desire for a distinct self-identity among the colonial elite meant a greater openness to goods and fashions coming from Asia.

The American demand for consumer goods such as textiles, especially silks, could be supplied competitively either by Asian goods carried on the Manila galleons, or by exports from the Peninsula crossing the Atlantic. Gasch-Tomás [2019: 135] points out that the Peninsular market of the Spanish textile industry itself was never directly threatened by the galleon trade at least until the end of the 17.C, since most of the silk reaching the Peninsula—travelling from Acapulco overland to Veracruz to be shipped to Cadiz—consisted of unwoven silk. This fact is also partly explained by the smaller market in the Peninsula for finished Asian goods alluded to earlier. Rather than competing with Spanish textile

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[4] The consulate was distinct from the Cadiz House of Trade (*Casa de Contratación*), which was a public institution. In practice, however, the *Casa* and the *Consulado* performed complementary functions and benefited from the monopoly.

[5] More fully, the *Universidad de los mercaderes de la Ciudad de Mexico en Nueva España, y sus provincias del Nuevo Reino de Galicia, Nueva Vizcaya Guatemala y Yucatán, y Soconusco, y los reinos de Cartagena, Perú* e ***Islas Filipinas*** [my emphasis].

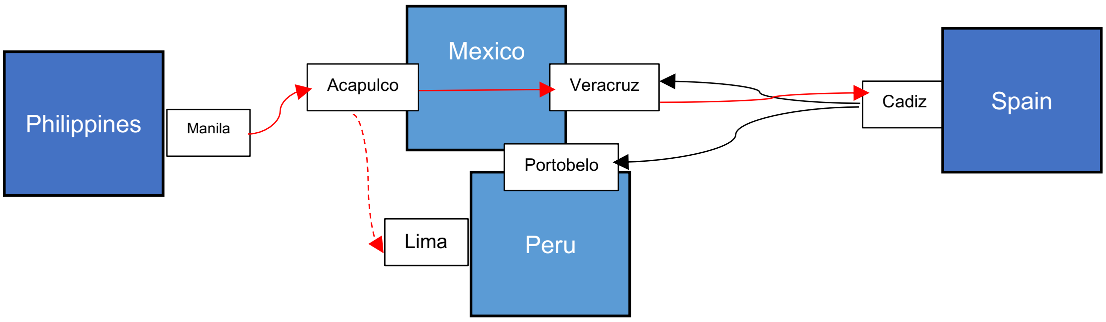
[6] In levels, Mexico's and Spain's GDPs in 1500 were $3,188 mn and $4495 mn, respectively; per capita incomes were $425 and $661 respectively, all figures being expressed in Maddison's 1990 international dollars.

[7] Schurz [1918: 390] quotes Spanish sources saying that "The Chinese goods form the ordinary dress of the natives of New Spain" and that the galleon cargo "supplies the poor folk of the country".

production, therefore, imports from Asia if anything served primarily as raw material for that industry. The main prize and the object of real competition therefore was always the American market for finished consumer goods.

Though little emphasized by past and recent writers on the Philippines (see **Box 2.**) subsequent research by Mexican scholars reveals the crucial role played by Mexican capital in *both* the trans-Pacific and trans-Atlantic trade in the 17. and 18.C, as well as in the internal distribution of goods in Spanish America, not only in New Spain itself but also the viceroyalty of Peru. (In **Figure 1.**, the red arrows represent flows of Asian goods; black arrows represent Peninsular and European exports.) Bonialian [2010: 195] notes that "the large commercial houses of Mexico City were those that distributed and supplied regional merchants located throughout the vice-regal space with European, Castilian, and Asian effects brought in via the Spanish fleets and the Manila galleon". As Valle Pavón [2016: 21] summarises: "By concentrating tremendous wealth, guild merchants controlled most of the trade with Spain and even more with the Philippines."

Figure 1. Flow of silk and other textile exports: galleon trade vis-à-vis the fleet system



Note: Red arrows depict exports/re-exports from Asia; black arrows from Europe, which may also include Asian goods imported by Spain from third countries

With respect to the galleon trade in particular, Yuste López [2007] documents how a good amount of the capital for the galleons in fact came from the merchants of Mexico City, who through various stratagems managed to purchase and virtually monopolize the lading spaces on the galleons that were reserved in principle for (Spanish) residents of Manila. As early as 1586 a letter from the Manila Junta wrote to the Council of the Indies complained that "one of the things that has *ruined this country* [emphasis supplied] is the great consignments of money that wealthy persons resident in Mexico send here" and asks for a prohibition of such consignments [Blair and Robertson v. 6: 166]. Until stricter requirements were imposed in 1769, Mexican merchants found ways to circumvent the exclusive rights of Manila residents to consign goods to the galleon. This they did either through their family members temporarily taking up assignments in Manila, notably as military personnel or civil servants, or by maintaining a system of agents and factors based in Manila who were registered citizens and entitled to lading rights [Schurz 1939(1985): 293]. Mexican capital to be invested in the galleon trade could be remitted, e.g., as personal transfers to Mexicans residing in the Philippines, while the transfer of profits from the Philippines to Mexico was easily accomplished through the retention in New Spain of part of the proceeds from sales in the Acapulco fairs. Another large channel for Mexican investment in the galleon trade was the charitable religious institutions (*obras pias*) set up in Manila by Mexican merchants[8] [Bonialian 2012: 202].

[8] Rivas Moreno [2024: Ch. 3] provides a useful and detailed description of the workings of legacy funds administered by the Misericordia of Manila that invested in the galleon trade. Rivas however takes a view contrary to Yuste Lopez's thesis—the same one adopted here—that Manila traders served in the main as agents of Mexican merchants and that the *obras pias* were set up to finance Mexican operations. The thesis regarding the independent agency of the Manileños however is circumstantial and inferential. It contravenes directly the direct of testimony such witnesses as the Duke of Linares, mentioned in the text. A major part of Rivas's argument relies on the fact that the Pacific circuit was limited to a single annual galleon, a feature he portrays as a de-facto export restraint hatched by the Manileños to restrict the supply of Asian goods. He thus underplays the weight of the official restriction that allowed only ships financed by the crown to ply the route. But the binding nature of this restriction can be seen by comparing it with an earlier period (1575-1619) when more than one ship (at times three) could ply

Through these charitable institutions, Mexican merchants could finance their own galleon-trade operations as well as lend to Manila merchants, pre-empting Chinese credit. In 1712, the new viceroy of New Spain, the Duke of Linares,[9] investigated the Philippine trade and found "that in contravention of the *permiso*, all or the majority of the goods of this [galleon] trade belonged to residents of Mexico, Puebla, and other parts of the kingdom and not to the natives of the Islands". In his report to the Council of the Indies, Linares provides a list of some 80 major Mexican merchants who were fined for violating the rule granting exclusive trading privileges to Manila residents, though as many as 500 Mexicans were named but not penalised [ibid.: 199]. It should be said, however, that the practice nonetheless persisted. As late as 1776, the fiscal of the Council of the Indies would write to Carlos III that Mexicans continued to be the true masters of the trade and "reputed to be the most fortunate and lucrative of all those that are known in Europe and America" [Schurz 1939(1985): 294].

Box 2. The neglected Mexican role in Philippine scholarship

William Schurz's more than a century-old description of the Mexican role in the galleon trade appears not to have received its due attention, nor its full implications drawn (Schurz [1918: 391-393] and 1939(1985): 135-136 and 292-294]). Curiously, even Bernal's [1965] pioneering account of the Mexican role in rhe Philippines does not deal with the economic role of Mexican merchants. His discussion of the *gente de intramuros* deals mostly with officials rather than merchants. Cushner [1960] is an exception for noting the "close collaboration between Manila and Mexican merchants"; he relies on Linares's 1712 report to Felipe V for documentation, which puts the responsibility on the Mexican merchants for the illegal practices of the galleon trade. Nonetheless Cushner appears to assign agency mostly to Manila merchants by characterizing the dispute as a "Manila-Andalusia trade rivalry". Diaz-Trechuelo [2017(1966): 529] notes the dearth of capital among Manila Spaniards but makes no mention of the role Mexican capital played in filling the gap; instead she suggests that the problem was partly resolved via credit extended by local religious foundations such as the *obras pias*. In fact, however, the capital of such religious establishments, particularly the *obras pias*, also came from Mexican merchants, as mentioned in the main text. Legarda's [1999: 32-50; 2001] concise and masterful summary of the workings of the galleon trade also notably fails to mention any role of Mexican capital. Corpuz [1997:39] alludes to the role of Mexican merchants but gives the impression that their participation was confined to the early years of the galleon trade and that it was effectively checked by Felipe II's decree of 1593. In fact, however, as already noted, their dominant role began from the earliest days of the trade and persisted until the formation of the Manila chamber (*consulado*) as late as 1769. One can only speculate why Azcárraga's own account of the galleon trade also omits any mention of the role of Mexican capital. (Was this an unspoken desire to exclude any discussion of Mexico, which by that time was no longer part of the Spanish empire?) The matter becomes even more enigmatic when a prominent Spanish history of the galleon trade such as that of Giraldez [2015] also fails to give the matter its due attention.

By contrast, the close *cultural* connections between New Spain and the Philippines have been studied intensively and in great detail. The richly illustrated volume of Calvo and Machuca [2016] is an example. It is remarkable how Filipino scholars have justly noted the pervasive material and nonmaterial instances of Philippine-Mexican exchange without drawing the implied economic and financial connections between the two countries. After noting the renewed interest among Mexican scholars in Mexican-Filipino relationships, Calvo and Machuca [2016: 18] note how "Philippine academia is taking the opposite path".

the route. The 1593 decree both asserted the crown's monopoly as well as undercut private efforts to expand the galleon trade by providing a state subsidy. Second, the fact of perennial overloading of the single galleon, as pointed out by Areaga, Desierto, and Aoyama [2020], combined with the constant pleas from Manila to increase the export quota suggests that the shippers from Manila were keenly interested in supplying more to New Spain if they could, rather than restricting supply.

[9] Fernando de Alencastre Noroña y Silva (1662-1717) was viceroy of New Spain from 1711 to 1715. To the viceroy is due the pithy characterisation of a system where "the Manila residents send the cargoes as these were theirs, though they belong to the Mexicans, and the Mexicans remit currency as if this belonged to the Manileños, as proceeds from the cargo that was not theirs". [Bonialian 2012: 202].

From a global perspective, the interests and agency of the merchant guild of Mexico City attain greater significance since, as already mentioned, they controlled not only the Manila galleon trade but also served as agents for the Seville-Cadiz merchants in the import and distribution of European goods in the Americas [Valle Pavón 2012: 21]. Apart from goods-distribution within New Spain itself, the Mexican merchant lobby, in collusion of the merchant consulate of Lima, also illegally supplied Asian goods to the vice-royalty of Peru.[10]

Given their control over domestic markets, the Mexican merchants were collectively in the position of a monopolist with two sources of supply (i.e., Acapulco and Veracruz), one being cheaper than the other but restricted by quotas. Profits from Asian goods were exorbitantly high, ranging from 400 to 600 percent,[11] which returns from the Atlantic trade could hardly match [Bonialian 2010: 196]. No complex economics is required to see that in these circumstances, the interest of Mexican merchants lay in increasing the quota for cheaper and higher quality Asian goods (or failing this, importing as much contraband as might be feasible) and in correspondingly reducing the supply from the Peninsula. It is also in this sense that the interests of Manila colony were aligned with the Mexican lobby and against those of Andalusia. (See **Box 3.** for a simple exposition.)

Box 3. The dual role of Mexican merchant lobby

The role of Mexican merchant capital can be elucidated in a simple model of a monopolist serving a single market with two sources of supply, with one being cheaper than the other.

Let the landed cost of goods imported from Asia and Europe be P_A and P_S, respectively, with $P_A < P_S$. (We abstract from quality differences.) The Mexican merchant community obtains supply from both sources (each assumed to be infinitely elastic) and confronts the demand curve $P(Q)$ where $Q = Q_A + Q_S$. Asian imports however are subject to a quota or quantity-restraint $Q_A{}^0$. (The circumstance that the Mexican merchants also supplied the market of the viceroyalty of Peru can be accommodated by understanding the demand curve to encompass the markets of both viceroyalties.)

Following standard theory, the monopolist sets marginal revenue equal to marginal cost. The latter is equal to the share-weighted average of the prices from the two sources of supply. The relevant equation is

$MR(Q) = hP_A + (1 - h)P_S$, where $h = (Q_A{}^0/Q)$ and $(1 - h)(Q - Q_A{}^0)/Q$. This can be solved for the profit-maximising Q, and consequently $Q - Q_A{}^0$ and the common average price P.

From here it is straightforward that monopoly profits increase with a higher quota for Asian goods $Q_A{}^0$, or alternatively, with an increase in the contraband beyond the statutory import quota. In this sense the Mexican merchant monopolists' interests were aligned with those of Asian goods exporters, i.e., the Manila merchants, and opposed to those of Sevilla-Cadiz.

Yuste López [2007:140] notes the difficulty of disentangling the amounts of silver shipped back to Manila as between the proceeds from the current sales of goods, delayed payments for previous sales, and personal remittances to Mexicans residing in Manila, the latter also serving as working capital for Mexican merchants. A partial idea of the scale is provided in Tomás-Gasch [2019:72, Table 1] which reproduces data from Sluiter [1983] for 1570-1650 on comparative private merchant capital remittances (investments) from New Spain that flowed into the Philippines versus those going to New Spain. Aside from the limited time period covered, such official statistics suffer from the fact that a great deal of illegal shipments of both goods and specie characterised the galleon trade causing such statistics to be

[10] Illegal because trade between the two vice-royalties was prohibited in principle and Peruvian merchants were prohibited from participating in the Acapulco fair and accessing the goods delivered by the Manila galleon. In the colonial scheme, the Peruvian market was supposed to be supplied by Cadiz fleet system that landed at Portobelo.
[11] Chuan [2001(1975): Table 1)] cites a "procurator" from the Philippines who compares the 1620-1621 retail prices of various silk products in Lima and their cost in Manila: the price-ratios range from 10 for Canton satin and brocade, to 9.75 for raw silk, and 8 for velvet. Taking transport costs and commissions into account, an outlay of 1.17 million pesos was calculated to yield a 2 million-peso profit, or a rate of return of 170 percent.

understated. As for profitability, Bonialian [2012: 196] cites Bernal's estimate that a galleon's cargo worth 500,000 pesos would be worth seven million pesos in Mexico, for a gross profit of 1,200-1,600 percent, or a net profit of 400-600 percent, net of taxes, financial and other transport costs. This is to be compared to the statutory ceiling on the effective profit ceiling of 100 percent set by the decree of 1593 as shown in **Table 1**.

The role of the large Mexican merchants was seen not only in the financing of the galleon's cargo but also in their influence on the outcomes of the fair at Acapulco, the terminus of the Pacific route. Schurz [1918: 32-34] enumerates some of the ways this was done. These methods ranged from delaying their purchases to the last moment, to colluding with officials to delay the opening of the fair until close to the time the galleon was to leave—both in order to secure the lowest price.[12] But a more systematic method was the pre-emption of the sale of the cargo even prior to the fair, an expected result given the Mexican capital previously invested:

> [I]t might be the smaller American buyers who suffered, when *the more powerful merchants arranged with the Philippine committee to take over the larger part, or all, of the cargo. Sometimes the latter bought the mass of the cargo before the galleon had reached Acapulco, by sending out an agent to the ship as she proceeded down the northwest coast. Finally, these Mexican and Peruvian traders merely claimed consignments made to them by their agent in the islands under a fictitious entry in the galleon's register*. Thus, the fair, which was designed to proceed with "all formality and quietude" was only too often a hurly-burly of questionable dealings and violent contentions, mitigated only by the restraint of Spanish *hidalguía* and the occasional vigilance of loyal officials. [Emphasis supplied.]

While some open buying and selling did exist on the margins of the fair, this was not the main basis for most transactions. Yuste López [2007: 278] estimates that some 90 percent of the capital entering the Acapulco fair came from Mexico City and was either directly owned by the Mexican *almaceneros* or provided by provincial merchants who paid commissions to the former to do the bulk negotiations and purchasing for them. The large Mexican merchants (or more accurately their agents) employed three options for transacting in the fair: the *first*, though not very prevalent or relevant, was to participate in competitive buying and selling; the *second* was simply taking delivery of goods that had actually already been bought with their own funds in Manila (essentially through what may be called "commercial assignment" using agents); the *third* ("the most interesting") involved what was essentially an intra-firm transaction involving parties that were actually members of the same company, often related by ties of blood or fictive kinship (*compadrazgo*). The latter two, of course, still had to be dissimulated as if these were open sales and purchases [Yuste López 2007: 282].

A rough idea of the scale of the Manila-Acapulco trade in relation to global flows is provided by de Vries [2003: 81-82, Figures 2a and 2b]. For the period 1600-1650, de Vries estimates that silver flows from Spanish America reaching Europe made up as much as 73 percent of annual American production, presumably in the form of royal revenues and merchant profits from the American market. On the other hand, a part of American silver also flowed to South and East Asia, notably to China, mainly through the galleon trade. This flow took up anywhere from 4.6 to 14 percent of American silver production and supplied between 13 to 40 percent of silver that ended up in Asia.[13] Giraldez [2015: 154], on the other hand, cites far higher numbers given by different authors for varying periods, e.g., Chaunu's estimate of as much as 2/3 of Mexican silver production in 1570-1780 being involved in the galleon trade; or L. Hoberman's estimate of 29-35 percent of Mexican silver production for the entire 17.C.

The dominance of Mexican capital in the galleon trade should be no surprise given the vast differential in wealth and investible funds as between Manila residents and Mexican merchants, as well as the juridical fact that the Philippines was under the viceroyalty of New Spain. Pierre Chaunu's description of the Philippines as "the colony of a colony" gains greater significance not only from a political-administrative

[12] Rivas [2024] points to these two practices as proof that the fair was conducted at arm's length. But without a knowledge of its relative prevalence, the existence of *some* arm's-length transactions and bargaining does not refute the claim that the majority of the trade was pre-arranged.

[13] De Vries [ibid.] estimates a flow of 17-51.2 tonnes per annum via the Pacific route, versus an absorption of 91-126 tonnes per annum by South and East Asia. A relatively smaller portion of silver reached China and Asia via the "Cape route"; this channel supplied anywhere from 12 to 17 percent of the silver absorbed by Asia (mostly China).

perspective but from an economic one as well. While no reliable estimates are available, it is reasonable to suppose that the bulk of galleon trade profits did not accrue mainly to Manila's residents but to the merchants of Mexico City. From a principal-agent perspective, it is straightforward to regard Mexican merchants and some wealthier Manila officials as principals and the rest of the Manila population as agents. The latter can be paid their reservation wages, with the surplus accruing to the principals. It was an optimal distribution of risk for capital-rich merchants to buy—and for capital-poor residents to sell—the lading rights (*boletas*) that the latter could not utilize on their own account. This imbalance goes some way to reconciling the acknowledged lucrativeness of the trade, on the one hand, and the common observation, on the other, that apart from the official and mercantile elite, the majority of Manila residents perennially endured financial insecurity and even hardship. As Yuste López [2007: 57] writes: "On the part of Spanish residents and their families, dedicating themselves exclusively to the transpacific mercantile trade was no guarantee of wealth or prosperity, and much less security." The vast majority of the Manila community lived off the "pensions" or subsidies paid by merchants who bought their galleon lading rights [ibid.].

Just as the fate of Philippine colony represented at most a subsidiary concern for the Mexican merchant lobby, the interests of Spanish domestic textile producers were also largely ancillary for the Seville merchants. Especially from the first decades of the 18.C, the textiles shipped from Spain to the American markets consisted not exclusively of Spanish textiles but of production by French, British, and other European sources. Gasch-Tomas [2019: 79] writes:

> The Spanish Atlantic trade, in theory a monopoly of the Castilian Crown and the traders of Seville's merchant guild, was in reality a business in which traders from most European countries were involved.

Azcárraga [1871: 87] noted the outcome of a natural experiment when in 1718-1722 the Manila galleons were totally prohibited from shipping Chinese finished silk—ostensibly in defence of the interests of Andalusian textile producers. At that time most of the exports from the Peninsula to America anyway consisted of finished textiles and fabrics produced not by Spain but by other European countries. In effect, therefore, the interests of the Seville merchant lobby were aligned with the interests of more productive manufacturing European countries. Indeed, in Sevilla and Cadiz themselves, foreigners or persons of foreign extraction (mostly French) called *jenízaros,*[14] were well-established as traders and maintained connections with their countries of origin [Bustos Rodríguez 2017].

But the role of third countries as the main sources of supply of the Atlantic route had become established much earlier. The same inflow of metal specie from Spanish America (from the late 16.C to about 1630) led to a loss of competitiveness of Spanish industry, both because of "Dutch Disease" effects, depopulation, and a weakening of its institutions. Drelichman [2005] econometrically isolates the influence of great mineral discoveries of the mid-1540s on real exchange appreciation (i.e., a lower price of tradables relative to nontradables) in various regions of Spain over the middle to the end of the 16.C—evidence of a Dutch Disease. While the effects of the huge American metal inflows on money supply and prices permeated all European countries—contributing to the so-called "price revolution"[15]—their consequences were more immediate and pronounced in Spain and in Andalusia in particular.

Such considerations reinforce Bonialian's [2010:100] contention that "the history of trade in the Pacific cannot be understood in all its dimensions if we do not contemplate what happens in the Atlantic area. The same occurs with a reverse perspective: the process of transformations and continuities that are experienced in transatlantic trade have their explanation, in large part, from the evolution of interoceanic

[14] The word corresponds to "janissary" in English (as in a member of the Turkish infantry recruited from the offspring of forced converts to Islam). In the case at hand, however, the term refers to a person descended from parents of mixed European nationality.

[15] More recent research tends to reduce—but not eliminate—the role assigned to the flow of American metals as the original explanation of the "price revolution", mainly because the inflation phenomenon in Europe occurred (1516-1520; 1521-1525) even before the period of large precious metal shipments from America. Other factors cited include the rise in own-production of metals in Europe, demographic changes, and currency debasements. See, e.g., Munro [2003]. Nonetheless, it cannot be denied that the flood of American silver exacerbated what was an on-going process.

and intercolonial traffic that was recorded through the maritime space of the Pacific." This derives from the fact that the commercial policy emanating from Spain viewed both Pacific and Atlantic as components of a whole, with both being influenced by Spain's shifting geopolitical alliances and the need to respond to competing European powers. Locating the transpacific trade in the larger scheme of Spanish colonial enterprise—what Yuste López [2007: 47] calls the "metropolitan vision of the trade between the Philippines and New Spain"—thus opens a window on the reasons and interests that underpinned Spanish commercial policy affecting the Philippines.

An integrated view of Spain's conduct of Atlantic and Pacific trade with its colonies in the period of the galleon trade yields the following stylized facts: on the one hand, the Sevilla-Cadiz merchant lobby—as embodied by their own consulate—exerted constant pressure to restrict the trans-Pacific trade to protect their own monopoly of trans-Atlantic trade with the Americas. Aligned with the Seville lobby were domestic Spanish textile producers from Andalusia, but more importantly, also textile producers from other European countries such as France, England, and the Low Countries, which represented the larger sources of continental supply.[16]

On the other hand, the key countervailing interest for expanding trans-Pacific trade was the merchant lobby of New Spain, with its agents inserted in Manila and making use of the latter's paper-monopoly. The interests of the Manila elite and residents, notwithstanding their smaller share of gains, were obviously bound up with those of the Mexican merchant lobby. A significant feature of the debate of the period was that the benefits and interest of Philippine colony were used as the rationale for expanding and liberalizing the terms of the galleon trade, despite the fact that the bulk of benefits actually accrued to Mexican merchants. The latter holds without gainsaying the friction that also existed between Mexican capitalists and bona fide long-term residents of the Philippines. Schurz [1985(1959): 291-294] cites the numerous complaints registered in legislation and correspondence regarding the unfair advantage of more capitalized Mexican merchants over the permanent *bona fide* Manila residents.[17] Citing contemporary documents, he notes how a particular investment of 250,000 pesos attempted by Mexico City merchants in the galleon trade in 1639 seems to have fallen through, but a later account of 1683 says Mexicans nonetheless succeeded in investing 400,000 pesos in the trade. Such partial and intermittent accounts suggest that attempts to interdict Mexican investment were weak and inconsistent at best.

In 1754—well after the Bourbon reforms discussed further below—the viceroy Juan Güermes (Count of Revillagigedo) "informed his successor…that it is morally impossible to keep Mexicans from sending money to Manila to invest in the galleon trade". Even as late as 1776, "the fiscal of the Council of the Indies…told Charles III that the Mexicans were the real masters of this traffic 're[p]uted to be the most fortunate and lucrative of all those that are known in Europe and America"' [ibid. 294].

The practice of granting monopoly privileges over aspects of trade or production to organized guilds or "consulates" was a carryover of medieval Spanish practice. Prior to the emergence of the unitary nation-state, the privileges or *fueros* granted by sovereigns to various towns and territories in exchange for political allegiance, services, or taxes were essential to the survival of feudal monarchies. Heckscher [1994(1935): 36-37] explains how the breakdown of trade, communications and consequently of trade during the Middle Ages originally made it convenient for sovereigns to devolve revenue collection and expenditure[18] to local "agents" such as local princes, towns, or municipalities in exchange for the latter's provision of local public goods and services to the crown (classically in the form of military service). The right to impose road or river tolls, for example, was granted with the concomitant obligation to maintain

[16] Though less significantly, textile producers in New Spain also lent their voice to this lobby.
[17] Schurz [1985(1959):293], for example, cites how Mexico City sought permission (though denied) to invest 250,000 pesos in the galleon trade in 1639, as well as an account from 1683 saying Mexicans had nonetheless succeeded in investing 400,000 pesos in the trade. As late as 1754, the Mexican viceroy Juan Güermes (Count of Revillagigedo) "informed his successor…that is was morally impossible to keep Mexicans from sending money to Manila to invest in the galleon trade". And even much later in 1776, well into the period of Bourbon reforms "the fiscal of the Council of the Indies…told Charles III that the Mexicans were the real masters of this traffic 're[p]uted to be the most fortunate and lucrative of all those that are known in Europe and America"' [ibid. 294].
[18] Heckscher attributes the original devolution of both revenue collection and expenditure to the fact that with revenues often collected in kind and given the difficulty of transport, what was collected also had to be spent locally.

the route in question. Even when the conditions that necessitated local autarky had been eroded and a money-economy developed, however, these particularistic organisations (e.g., lordly fiefs in the countryside or merchant guilds in towns) had become established as foci of wealth and local political power. It then became natural for sovereigns to commute the required services into monetary form and use these organisations as instruments of revenue-collection.

The well-known prototype of this practice was the Mesta, the wool-growers' association that was given the rights (from 1273) to seasonal migratory grazing (transhumance) over the properties of agricultural cereal growers in exchange for revenue contributions to the crown from wool production and exports [Vicens Vives 1969: 303]. The Habsburgs followed the same principle in granting monopolies to the towns of Burgos (1494) and Bilbao (1511) over the right to export wool to different European ports [ibid. 308]. The monopoly given to Seville (1503) over the trans-Atlantic trade can be understood in the same manner. And of course Manila was later given the monopoly over the trans-Pacific galleon trade (1594). A modern perspective of this old practice views it as an effective means for the sovereign to minimize the transactions costs of extracting revenue. Patronage and easier revenue collection of course however did not always yield the most efficient incentives for production or exchange.[19]

In the case of the trans-Atlantic trade, giving export- and import-monopoly rights to the Seville merchants lowered the Crown's transactions costs of organising the fleets plying the Cadiz-Veracruz and Cadiz-Tierra Firme routes.[20] The merchants benefited from the price mark-ups on goods exported to the Americas and imported into Spain, while revenues from both, notably the *almojarifazgo*, accrued to the Crown. In addition there was the "royal fifth" (*quinto real*) that was the Crown's share in the production of precious metals. Privileged merchant lobbies could moreover be approached for large loans and donations to the Crown, essentially a crude form of capitalising merchant privileges. The single-port system itself—Veracruz and Portobelo for the trans-Atlantic routes and Acapulco for the trans-Pacific, respectively—afforded a simplification in terms of reducing the bureaucracy required to administer taxes.

Manila's paper monopoly of the Acapulco trade, on the other hand, was aimed similarly at providing the colony with sufficient means to sustain itself—much like a mediaeval fief was expected to do. That this privilege did not suffice to yield prosperity for the colony is unsurprising: first, in view of the various restrictions on that commerce imposed in consideration of the competing Atlantic trade (something that Azcárraga denounced in retrospect); and second, when one takes account of the fact that the trade was dominated by Mexican merchants. Azcárraga [1871: 54] describes the "poverty and trouble" that characterised Manila at the end of the 17.C, where "the white population had scarcely grown; commerce languished within the narrow circle of its periodic expeditions to Acapulco without attempting any other kind of exchange; and poverty was reflected even in the garrison troops that did service barefoot and shirtless, committing frequent robberies of Chinese stores, which long ago became a source of vexation for people of the country".[21]

2. Bourbon reforms

[19] The Mesta has traditionally been held as an example where a potentially more productive activity—grain agriculture—was sacrificed to the short-run imperative of easy revenue collection (e.g., Vicens Vices [1969: 304] and North and Thomas [1976:130]). The ease of revenue collection stemmed from the fact that the sheep growers were few in number and organised and therefore easier to deal with than numerous and disperse peasants. Later scholarship however now appears to qualify this judgement and argue that wool production was in fact the more productive activity and more in line with Spain's prevailing comparative advantage. The Mesta in this case could be regarded as a "second-best institution" [Drelichman 2009]— in the sense of being inferior to a situation where perfect land markets existed or more symmetrical bargaining costs prevailed, thereby yielding a level of wool production somewhat less than actually obtained.

[20] Jointly with the Casa de Contratación, the self-governing Seville consulate organised the "fleet system" (*sistema de flotas y galeones*) which required ships bound for America to travel in a convoy accompanied by warships as protection.

[21] Felipe III issued a decree in 1619 (Ley XI, Title 18, Book 6, Vol. 2 *Recopilacion*) prohibiting the practice of compelling Chinese to regularly sell poultry to Spanish residents of Manila at below prevailing prices. The implication that the Manileños resorted to such a practice suggests the distress of the Manila colony.

The above description of colonial trade organized around decentralized and quasi-autonomous monopolies underwent a major change with the installation of the French-connected Bourbons on the Spanish throne in 1700. The last Habsburg was the childless Carlos II, who designated the Bourbon Felipe V (a grandson of France's Louis XIV) as his heir. This succession was finally reaffirmed with the end of the War of the Spanish Succession in 1713. The change in dynasty paved the way for new views of statecraft and strategic objectives that affected the conduct of commercial policy both in Spain and its colonies.

2.1 Colbertism

It is commonplace—as Azcárraga did—to label the entire Spanish colonial trade policy from the 16.C to the end of the 18.C as "mercantilist". This terminology may be excused if mercantilism is understood as the caricature popularized by Adam Smith, namely a preoccupation among nations with accumulating precious metals. In his classic work on the subject, however, Heckscher [1994(1935): 35ff] describes mercantilism more completely as a "unifying system" that strove to overcome the "disintegration" or "particularism" of the medieval period in favour of the power of the central state. In economic terms, Braudel [1984: 294] describes mercantilism as "the first attempt to create the national market".

In this fuller sense, the trading regime before the changes under the Bourbons might be more aptly termed *feudal* rather than mercantilist, or at best an inchoate mercantilism prior to the emergence of a nation-state. The system that granted monopoly privileges to specific bodies over branches of trade and production—essentially amounting to a form of tax-farming—was precisely a particularism antithetical to a "unifying system" such as that which mercantilism was striving to establish.

Vicens Vives [1969: 476] characterises the main direction of the Bourbon reforms as "monarchical absolutism", or the idea that "Spain ought to form a single monarchy, with single codes of law and a single administration" [ibid.: 475].[22] In the economic sphere, major changes are readily traceable to the inspiration provided by Bourbon France, particularly the mercantilism of Jean-Baptiste Colbert (1619-1683) fostered under Louis XIV, which involved a consolidation of the nation-state both in political and economic terms. The admiration and emulation of Colbertist measures is evident from the writings of thinkers of the period, notably the influential Geronimo Uztárriz (1670-1724) who "panegyrized the mercantile system of Colbert and Louis XIV and exhorted Spain to follow in the footsteps of France and Holland to national prosperity" (E. Hamilton, quoted by Smith [1971: 3]). On the other hand, the reforms under the Bourbons cannot be characterised as mere copy-paste emulations of the French example. Vicens Vives [1969: 472-473] notes that there was a more or less continuous succession of technocrats and reformist thinkers under the Bourbons who drew from prevailing dominant intellectual trends but also sought to apply these nondogmatically to what they viewed as particular conditions for Spain, i.e., they "attempted to accomplish a practical synthesis between reformism and tradition". Hence such reformers could range from mercantilist advocates such as Uztárriz and Ulloa in the early 1700s, to Campomanes (1783-1802) and Jovellanos (1744-1811) by the late 18. and early 19.C, both of whom espoused liberal enterprise and trade.[23]

A pillar of Bourbon commercial policy along Colbertist lines both at home and abroad was the attempt to consolidate and tighten revenue collection for the Crown's benefit, in the process reducing the semi-autonomous powers of feudal lords and merchant guilds. In this regard, the typical reforms implemented in France were approximated (or at least attempted) in the commercial policy of Bourbon Spain. Colbert's most prominent reform attempt was the dismantling of the numerous internal impediments to the

[22] This is reflected in the expression associated with the first Bourbon king of France Henri IV: "*Un roi, une loi, une foi*" (one king, one law, one faith).

[23] Vicens Vives [1969: 474-475] distinguishes four "generations" of such reformers, namely, those acting from 1714; the generation from the mid-18.C including the scholar-monk Benito Feijóo; those active under Carlos III, notably his treasury minister Pedro de Campomanes; and finally the "generation of (Gaspar Melchor de) Jovellanos" from 1790 to the beginning of the 19.C.

movement of goods in the effort to constitute France as a single customs area.[24] Those feudal survivals included local tolls on roads and river courses imposed by local authorities with the original purpose of funding local infrastructure improvements. But more egregiously, they also involved "state tolls", or what were effectively *customs duties*, imposed by local authorities on goods moving between provinces [Heckscher 1994(1935): 89ff]. The obvious effect of these particularistic rules and impositions was to penalize consumers arbitrarily through unneeded price differentials and to limit the scope of markets for producers, with deleterious effects on competition, efficiency, and scale.

The Spain of that time itself presented a similar situation. The country was only amalgamated by the personal union and intermarriages of sovereigns of hitherto independent kingdoms,[25] each with its own privileges, parliaments, charters, and customs (known as *fueros*). Just as in France, Spain's market even until the mid-18.C was marked by political divisions marked off by internal customs duties (known as *puertos secos* or "ports on dry land"). Hence Castile, for example, was set off from Aragon by customs duties throughout their mutual land border. Even within Castile itself, commercial distinctions existed between the Basque provinces and Navarre.[26] In addition, there were various local tolls and fees imposed by local authorities, such as municipal tolls on goods, tolls for bridges, river ports, and other taxes imposed by local nobility [Gonzales Enciso 2003: sec. 6.2].

Thus confronted with the same dilemma as Colbert, Felipe V issued his instruction of 31 August 1717 suppressing all internal customs and transferring all customs to the ports [Vicens Vives 1969: 553]. More sweepingly, the reforms under Felipe V's *Nueva Planta* decrees (1707-1715) did away with the local charters and parliaments (*cortes*) of provinces such as Aragon, Valencia, Catalonia, and Majorca. Such actions to suppress local customs and taxes served on the one hand to expand the domestic market—favouring the more efficient parts of Spain's economy, notably Catalonia—but also rationalised revenue collections in favour of the central government.[27]

Similar changes were bound to be reflected in overseas trade policies. In the Pacific, the principal thrust as early as the first decades of the 18.C was to undercut the Mexico City merchants' domination and replace it with interests more closely allied with the central government. As might be expected from a surging Colbertism, the first impulse was to reinforce protectionism—"possibly requested by the Andalusian silk trade" [Vicens Vives 1969: 536]. This is seen in Felipe V's decree of 8 January 1718 prohibiting Acapulco-bound galleons from loading Chinese silk, whether raw or finished, and limiting shipments to goods not competing with Spanish exports [Azcárraga 1871: 58-59]. Reflecting the common interests of Manila and Mexico, however, the viceroy of New Spain at the time, Baltazar de Zuñiga, interceded with the court for the suspension of implementation of this decree. Ultimately, however, the argument was lost at the Council of the Indies and a final decree was issued on 25 October of the same year, 1718.[28] The decree was publicised in Manila however only in 1722: "[T]he galleons' cargoes had to consist only of pepper, cloves and other spices, loose and raw silk, rigging, canvases, and other items that contained silk" [Azcárraga 1871: 60]. The ban was reiterated on 20 July of the next year, but both were repealed on 7 June 1724 in the face of opposition—virtual "insurrection" [Bjork 1998: 48]—by the Manila colony. Azcárraga [1871: 62-63] reports one of the effective arguments by Manila was that "most, if not all, of the silk loaded onto Spanish fleets bound for the Americas did not come from the metropolis but from French, English, and Dutch factories".

In 1728, however, the silk ban was renewed and even expanded to include printed linen and cotton goods. These measures hurt the Mexican merchant lobby, the principal beneficiary of the Manila-Acapulco trade, as well as the factors for the more limited export of Oriental goods from Veracruz. Their

[24] Always with the caveat that this took time and ultimately met only with moderate and uneven success. Braudel [1984: 289-297] relativizes the extent and importance of removing internal customs in creating a national market. He proposes somewhat tautologically that the crucial ingredient in creating the national market was "economic growth alone" [ibid: 292].
[25] This culminated, as is well-known, in the marriage of Isabela I of Castile-Leon and Fernando II of Aragon and their successful victories over the remaining Moorish *taifas*.
[26] For details, see the description by Gonzalez Enciso [2003: Ch. 6, Sec. 6.2].
[27] For some details that also show the uneven progress of this measure, see Gonzales Enciso [2003: sec. 6.2].
[28] Azcárraga [1871: 60] uses the date 27 October.

effects however were felt, perhaps most deeply, by the Spanish colony in Manila. Azcárraga [1871: 64] reports the "renewed alarm and profound disgust" among Manileños, who again sent commissioners to argue their case before the Council of the Indies. A decree of 8 April 1734 finally rescinded the ban and once more reinstated the trade in silk with New Spain, with an increase to 500,000 pesos in the value of the allowable outbound cargo and a one-million limit on revenue for the return trip.[29] Azcárraga [1871: 64] writes that this episode finally marked the end of the dispute that characterised the Manila-Acapulco lobby versus the Sevilla-Cadiz lobby for almost two centuries. To underscore the end of the debate, Felipe V in his decree[30] ordered "perpetual silence on the commerce of Andalusia and the Consulado of Cadiz" (quoted in Schurz [1985(1929): 325]).

If this were all that was accomplished, then the result can only be called a pointless draw, since all that resulted was a restoration of the protectionist quota system that had been established since 1593. The irony of this protectionist compromise between the two lobbies by the time it was implemented, however, was that it actually promoted not the interests of Peninsular producers—the measure's putative raison d'être—but, as already noted, those of more prolific third-country producers, which managed to ship their goods to America, with the Seville-Cadiz merchants effectively functioning as their agents. While France and Belgium were the dominant players in this game in the earlier period, Britain joined the fray by the 18·.C. The farce of protecting Spanish producers became all the greater, since by that time—as will be discussed separately—Britain, France, and other countries through their great merchant companies not only managed to export their own production through Cadiz but also to export even Asian goods that they had managed to procure through their presence in China, India, and Batavia. China had from 1684 allowed direct trading by permanent foreign houses or "factories", notably in Guangdong (see, e.g., van Dyke and Mok [2015]). Through this means, British, French, Dutch, Belgian, and other merchants directly procured Asian goods that could then be exported to the Americas via Cadiz in the guise of being European goods. A report of 1722 made to the court by the merchant community of Manila (cited by Bonialian [2012: 226ff]), alleged that the travesty of the Cadiz trade monopoly had reached the point where third-country companies brought European textile patterns for Chinese workshops to copy and then to pass off as European products to be shipped and sold in Veracruz.[31]

2.2 Dismantling the monopolies of the Atlantic trade: navios registros *and* comercio libre

The subsequent direction of commercial policy under the Bourbons was nonetheless to weaken and curtail the monopoly privileges of both the Andalusian and Mexican monopolies. This was accomplished not by outright disestablishment but by introducing minor changes that chipped away at the lobbies' advantages. The monopoly of the Mexican *almaceneros* over the internal distribution of the *flota*'s cargoes was weakened, first, by the policy allowing Peninsular shippers to maintain a presence in Mexico. Under the older policy, Cadiz shippers frequently had to sell their goods at the Veracruz fair to Mexican wholesalers at a discount owing to the "mercantile blackmail" (*chantaje mercantile*) exercised by Mexican merchants. The latter involved Mexican merchants staying away or temporarily boycotting the Veracruz and Jalapa fair until the last few days; the Cadiz shippers then had to agree to lower prices owing to the need to return to Spain with the fleet. Under a change in policy from 23 September 1723, however, Peninsular shippers were allowed to "winter" in Mexico, ostensibly to dispose of goods unsold at the

[29] This increase in quota is reflected in the year 1735 in Table 1, which is from Yuste López's [2007].
[30] Diaz-Trechuelo identifies this decree as *Reglamento de 1734*. The decision and proceedings of the case were published in *Extracto historial del expediente que pende en al Consejo Real y Siuprema de las Indias*, etc. Madrid, 1736 [Diaz-Trechuelo 1966: 262 and fn. 16].
[31] This practice was also noted by Viana [1907(1765): 276] in his memorandum: "Each of the aforesaid nations has its agent in Canton, who during the year disposes of such goods as his ships could not sell; he [*sic*] furnishes to the Chinese the designs [for fabrics] which are every year invented, and they weave the stuffs of the same width as those of Europa. Afterward they sell these, as coming from Francia, Inglaterra, and other European countries, without any one being able to detect the fraud… A large portion of the said fabrics or stuffs come to Nueva España in our trading-fleets, and, although they are of the same quality as those which the galleons carry from here to Acapulco…[T]here is a very great difference in the prices; for the mere name of 'French' or 'English' confers value and estimation on the said fabrics throughout the kingdom of Mexico, and the mere name of their being 'Chinese' renders those which go by way of Acapulco of little value."

fairs, but also giving them an opening to establish their own retail stores in Mexico, thus undercutting the large Mexican wholesalers by bypassing their internal monopoly [Bonialian 2010: 214].

Andalusian monopoly privileges over the Atlantic trade were also gradually eroded. This began with seemingly small special privileges granted to other interests to ship goods to the Americas, including the *navio permiso* given to the British under the Treaty of Utrecht (1713) ending the War of Spanish Succession that allowed Britain to send one ship annually to sell goods to the Spanish American colonies.[32] Then there was the privilege given to the Canary Islands (1728) to sell to ports in the Caribbean, and also the permission given to the Royal Guipuzcoan Company of Caracas (est. 1728) to ship cacao directly from Venezuela to ports in the Bay of Biscay [Smith (1971: 9) and Gonzales-Enciso (2003: 5.3)].

More significant steps followed that undermined both the Andalusian and the Mexican hold over the Atlantic route. The first was the permission given to "registered ships" (*navios registros*) of private Spanish merchants to ply the Atlantic route. This was not a completely new phenomenon,[33] but the practice took on major importance as a contingent but official response to another of Spain's perennial wars with Britain (the 1739-1748 *Guerra de Asiento* or "War of Jenkins's Ear"). With good reason,[34] the Spanish Crown believed the war endangered the regular fleets that supplied the Americas, the voyages of which were therefore halted during 1740-1754. Instead, private merchants from the Peninsula were licensed to dispatch ships on their own account or with partial state support to supply the American colonies with European or Asian goods. This effectively suspended the monopoly of the Cadiz consulate.

This new practice however also had a knock-on effect on the Mexican *almaceneros* and further along, on the Manila galleon interests. For the registered ships not only crossed the Atlantic to serve New Spain but travelled down the coast of South America, rounding the Cape of Good Hope, and calling on ports both on the eastern and western sides of the Viceroyalty of Peru. (Buenos Aires on the Atlantic side was a particularly favoured stop.) Peru, however, as already mentioned was already previously supplied—admittedly illegally—by the same Mexican City merchants (in collusion with the merchants of Lima) that dominated the Pacific galleon trade with Manila. The intrusion of private ships into the Peruvian market-space therefore effectively cut into the demand for the Asian goods coming from Manila.

With the end of the war, the consulates petitioned the court for a reinstatement of the fleet system; this was granted (belatedly in 1754 and only partially and solely) for New Spain following an agreement between the adversely affected Mexican and Cadiz lobbies.[35] By contrast the fleet to Peru was not reinstated, so that South America continued to be supplied by private ships. Bonialian [2007: 419] argues the latter was due to the continuing insecurity of Portobelo and the greater amount of contraband, which made the restoration of the fleet on that route less attractive to the Cadiz lobby. By this time, however, the dike had been breached and supply by licenced private ships—for New Spain partially and for Peru entirely—became a permanent fixture of the trans-Atlantic trade. Under Fernando VI (1746-1759) an ordinance was issued in 1754 that formally allowed *navios de registros* from Spain to ply the Pacific Ocean via rounding Cape Horn [Vicens Vives 1969: 577].

From the viewpoint of revenue for the crown, the registry fees paid by the private merchants for the privilege of shipping independently made up for some of the revenue lost from not reinstating the Cadiz monopoly and avoided the cost of providing security for a South American convoy [Gonzales-Enciso 2003: Sec. 5.2 (citing Garcia Baquero)]. This can be understood as earning a larger revenue by moving down the elastic portion of a demand curve. The efficiency of private shipping could be seen in the larger

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[32] The treaty also included Britain's exclusive right to supply enslaved blacks to Spanish America (the *asiento de negros*). Both privileges ended in 1750 when Spain rescinded them by paying Britain 100,000 pounds.

[33] *Reigistros sueltos* (ships registered outside the fleet system) existed alongside with the fleet system prior to 1718 but played a relatively minor role; it is estimated they carried 21 percent of tonnage shipped to America over the period 1717-1739 [Gonzales Enciso 2003: sec. 5.2].

[34] Among other events, the British in 1739 captured Portobelo in Panama, which (together with Veracruz in Mexico) was used by the Atlantic Spanish fleet as its South American port of call and a collection point for silver to be shipped to the Peninsula.

[35] No private ships were licensed during the period and in 1757-1776; fleet voyages to New Spain were still registered [Marquez 2010: 410].

shipments reaching Mexico from Spain even during the war years 1739-1754: private registered ships transported 82,000 tonnes, as compared to 46,423 tonnes during the longer pre-war period 1717-1738 [Bonialian 2010: 420, citing Garcia Baquero].

Commercial policy during the long reign of Fernando VII's half-brother Carlos III (1760-1788) was more decidedly Colbertist, that is, one that maintained protection relative to third countries alongside the creation of the largest possible customs area and promotion of economic activity within one's own borders, the latter now understood as including colonial possessions. In regard to the latter, in addition to the regulation on *navios de registros*, an act by Carlos III in 1765 also allowed "internal trade" between nine Spanish ports and five islands in Caribbean,[36] a further move away from the single-port and fleet system.

The culmination of this trend of encouraging trade within the Spanish empire was the famous regulation on *comercio libre* of 1778.[37] This was a measure that originated from the circle of liberal reformers around Carlos III, which included such persons as Pedro Campomanes (1723-1802), who opposed the Cadiz monopoly and advocated "extending the commerce of America to the entire kingdom" [Stein 1997]. Here, notwithstanding the precocious use of the term "free trade", the underlying Colbertist, i.e., mercantilist, character of the legislation was clear: the preamble spoke of the monarch's belief that "only a *free and protected* [emphasis supplied] Commerce between European and American Spaniards can restore the former vigour of agriculture, industry, and population" in his dominions. As Fisher [1981: 23] noted, "[T]he novel concept that Spaniards (European and American) might trade freely with each other was firmly tempered by the belief that they should continue to enjoy protection from foreign competition." The regulation thus merely systematised and broadened earlier piecemeal legislation[38] by allowing direct trade between thirteen Peninsular ports[39] and the already-established ports in the Americas. Under this regime, the assorted and haphazard impositions on trade were vastly simplified and reduced in shape and levels to ad valorem tariffs: both "national" and third-country goods could be transported freely within to any part of the Spanish space (i.e., Spain, its territories, and colonies) by paying export and import duties. Third-country goods were levied seven percent upon arriving and the same rate upon reexport. "National goods" and foreign goods "legally introduced" into the Spanish space, on the other hand, needed only to pay a three-percent export tax and three-percent import tariff.[40]

A specific provision (No. 51) of the said regulation grants incentives to the "direct trade established between Spain and the Philippines" (a fact since 1765 and treated in Sec. 2.6 below) by exempting all Philippine products from import and export duties at Spanish ports, as well as exempting Spanish goods from export duties if these are bound for the Philippines. Asian goods from the Philippines shipped to North America (whether through Acapulco or Veracruz) needed to pay only the export and import duties applicable to Spanish goods (i.e., three rather than seven percent).

For various reasons, however, Venezuela and New Spain would not be included in the *libre comercio* scheme until a decade later, respectively in 1788 and 1789. The late inclusion of New Spain also meant that its Philippine dependency was also not immediately incorporated in the system, so that the Manila-Mexico City monopoly of the galleon trade would survive somewhat longer. In records of the debates of the period cited in Fisher [1981: 22-23] the ostensible reason for the exclusion was the fear that most private merchant shipping would then have unduly focused on the lucrative Mexican market to the neglect of less prosperous regions. As will be discussed further below, however, this did not mean the

[36] The Caribbean ports were Cuba, Santo Domingo, Puerto Rico, Trinidad, and Margarita. The nine Spanish peninsular ports, on the other hand, were Cádiz, Seville, Málaga, Alicante, Barcelona, Cartagena, Santander, La Coruña, and Gijón.

[37] In full, *Reglamento y aranceles reales para el comercio libre de Espana a Indias de 12 de octubre de 1778*.

[38] Aside from the Caribbean, direct trade was also granted earlier to Louisiana and the Yucatán in 1770 and 1778.

[39] Added to the nine peninsular ports already mentioned in footnote 30 were those of Alfaques de Tortosa, Almería, Palma, and Santa Cruz de Tenerife.

[40] The quote from the decree reads: "Que todos mis vasallos de España puedan llevar o remitir con Encomenderos y Factores según las Leyes de Indias, los frutos, géneros y mercadurías de estos reinos y también los extranjeros introducidos legítimamente en ellos, excepto los vinos y licores de éstos que han de ser siempre estrechamente prohibidos, pagando el tres por ciento los géneros nacionales y el siete por ciento los extranjeros, tanto a la salida como a la llegada de india." (quoted in Delgado Ribas [1980: 72]).

influence of the Cadiz/Mexico lobbies would remain undisturbed. Prior to the extension of "free trade" to New Spain in 1789, therefore, the supply of goods to Mexico from Europe (which included both Spanish goods and goods from other Europe) via Veracruz was governed by an aggregate import quota, an annual amount to be distributed between Cadiz and now other authorised Spanish ports. On the Pacific side, the Manila galleon continued ply its route, similarly governed by an import quota (albeit one typically observed in the breach).

2.3 The rise of competing commercial powers

Meanwhile, aside from the pressure to institute fiscal reforms following a Colbertist programme, the other major influence that led to a change in Spain's commercial policy in the second half of the 18.C was the emergence of competition from other great commercial powers, notably, England, France, and the Low Countries. By the early 18.C the original Spanish scheme of controlling trade in both the Atlantic and Pacific was facing encirclement and being subverted by other great commercial powers.

Spain's policy in the Pacific was originally founded on the presumption that its occupation of the Philippines gave it an unparalleled geographical advantage in accessing supplies of Asian goods. On the other hand, its possession of American colonies gave it a monopoly over lucrative markets founded on huge metal reserves. This two-sided monopoly over the Pacific route created the possibility of huge gains, the limits to which were set only by the need to cater to the powerful Cadiz-Sevilla lobby, whose interests involved the competing Atlantic route. For most of the 17.C and early 18.C, the only wrinkle in this arrangement was the unceasing (but understandable) efforts of Mexican merchants and their Manila confederates to expand the galleon trade beyond the legal restrictions on volume and value imposed by royal legislation.

However these original premises were eroded and gradually rendered obsolete on both Pacific and Atlantic sides by the rise of commercial sea powers like Britain, France, and the Netherlands, which had managed to establish themselves closer to the sources of supply of Asian goods as the 18.C began. With respect to China, the linchpin of the galleon trade, official Chinese attitudes towards dealing directly and systematically with foreign traders began to change beginning in the 1680s when foreign ships were allowed to call on Chinese mainland ports. The Dutch, English, and French through their merchant companies—respectively the Dutch East India Company (VOC), the (British) East India Company (EIC), and the French East India Company[41]—were among the first countries that regularly called at Guangzhou (Canton) (from 1699 to 1714).[42] In the course of the 18. and 19.C these would be joined by the Danes, Swedes, Germans, and ultimately the Americans. The regular direct relationship with European commercial powers finally developed into the "Canton System", where foreign merchants established a regular if highly regulated presence on the Chinese mainland.[43]

In the beginning, trade possibilities between China and these third nations were limited by the difficulty of finding products to exchange given China's all-round manufacturing superiority and its largely self-sufficient domestic market. In this Spain was at an advantage owing to its access to precious metals from America for which a huge Chinese demand existed. In true mercantilist fashion, however, and in line with Thomas Mun's policy insight,[44] the British and Dutch overcame their initial disadvantage by running trade surpluses, which then yielded the specie needed to procure Asian goods. Such surpluses could be achieved either by (a) directly exporting exotic Asian goods to Europe from their bases and holdings in South, Southeast Asia, and elsewhere, or (b) by intermediating profitable trades among Asian countries themselves, i.e., facilitating "inter-Asian trade" [de Vries 1997: 386ff].

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[41] The last two being more completely, the *Vereeinigde Oostindische Compagnie*, (est. 1602) and the *Compagnie française pour le commerce des Indes orientales,* (est. 1664 by Colbert himself).
[42] Van Dyke [2000:10].
[43] For a treatment, see Van Dyke [2007].
[44] Mun's 1664 treatise *England's treasure by forraign trade* proposed the accumulation of "treasure" (i.e., metallic specie) by running trade surpluses.

An example of the former is the VOC exporting spices and pepper directly to Europe from their possessions in Indonesia, or the British exporting tea and cotton goods from India to Europe. The specie thus earned could then be mobilised for the China trade. Surpluses and bullion however could also be earned by trading in products desired by Asian countries themselves: the China-Japan trade intermediated by the Dutch is an example. Japan was Asia's major silver producer, but its policy of isolation under the Tokugawa (lasting 1603-1868) prohibited its own merchants from trading abroad. To reduce its dependence on Chinese traders, it gave the VOC trading privileges to supply it with goods. The Dutch had meanwhile earlier coerced the Chinese into allowing a trading post in Taiwan (Fort Zeelandia, established 1624), where—in much the same way that Manila functioned—Chinese junks brought in silks that the Dutch paid for in Japanese silver and then carried these off to Japan where they were in high demand. For at least five decades (1630-1680) the Dutch through this means obtained quantities of silver that could then be used to pay the Chinese [de Vries 1997: 394-395, Table 9.5].

A similar intermediation was performed by the British, where the East India Company traded Indian cotton goods—mostly obtained through coercive taxation—with Southeast Asian polities in exchange for spices, which it could then export to European countries. European sales paid in precious metals[45] could then be used to procure goods in China that were then also exported to Europe.

In the Atlantic, similarly ingenious and profitable schemes of "triangular trade" were implemented: the most notable of these was the infamous slave trade, where European arms, ammunition, and other manufactures were traded with African countries in exchange for enslaved people. The latter were then shipped to the Americas (mostly Brazil and the Caribbean) in exchange for sugar, cotton, and other agricultural products produced by slave labour that were in demand in Europe.[46] The ingenuity of these rising naval powers in exploiting opportunities for such triangular trade accounted for much of their commercial success in the China trade and elsewhere notwithstanding their lack of direct access to the metal wealth that Spain possessed.

Clearly, however, such roundabout trade methods could be superseded—and the drain on silver reserves reduced—if commodities could be found that were especially desired in China. The British solved this problem with infamous success through the opium trade. Introduced by the Portuguese into China in 1750 [Van Dyke 2002: 121], opium was produced in much greater quantities by the East India Company on their plantations in India. From the 1770s the EIC then regularly traded a product that met an almost insatiable demand which they could regularly exchange for the silk, tea, and porcelain that were in demand in the rest of the world.

Findlay and O'Rourke [2007: 262] cite Tan Chung [1974] who notes how in 1761-1770, half of British tea imports from China were still paid for in silver.[47] Indian goods sold by the British to China then made up only 24 percent of the value of tea purchases. By 1800, however, Chinese imports of Indian goods including opium (but also Indian cotton goods), financed more than half of the tea bought, and by 1821-1830 this share had risen to 83 percent. Ultimately, as is well known, the Chinese empire's attempt to limit trade in this socially harmful product was used by the British as the occasion for the notorious Opium Wars (1839-1842 and 1856-1860), which led to the unequal treaties granting further concessions to the West. The material point pertaining to trade flows, however, is that the unique advantage of the

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[45] Much of the silver in Europe, it should be said, ultimately originated from American mines and circulated through the trade deficits Spain ran with other European countries.

[46] In relation to the Atlantic trade, as part of the Treaty of Utrecht that settled the War of Succession, Spain granted the British a thirty-year monopoly (*asiento de negros* 1713-1743) of supplying its American colonies with slave labour, in addition to a privilege of sending an annual ship (*navio de permiso*) of 500 tons carrying general merchandise for trade in the Americas. Just as in the case of the Manila galleon, limits on this trade were often breached and illicit shipments were the rule. This latter concession obviously cut into the monopoly businesses of both Cadiz and New Spain.

[47] In practice, the EIC would sell opium and other Indian goods to Chinese merchants (the *cohong*) for silver. This silver could then be used to purchase Chinese tea, porcelain, silks, etc. Any excess in value of the latter over the former would obviously mean will be met by a drawdown of the company's working capital. But this capital would be replenished through bills of exchange in pound sterling drawn in London upon the sale of the Chinese goods [Findlay and O'Rourke 2009: 292].

galleon trade (i.e., the direct exchange of American silver for exotic Asian, especially Chinese goods) was being progressively undermined, both in terms of location and privileged means of payment.

The same phenomenon is suggested indirectly in global terms by comparing the sources and destinations of silver flows between the periods before and after the rise of the major European trading companies. As noted in an earlier section, de Vries's estimates of silver flows of an earlier period (i.e., 1600-1650) showed that most of the silver arriving in China originated from the galleon trade, with very little passing of it through the "Cape Route", i.e., from Europe. In the later period 1725-1750, however, the Cape route came to account for anywhere from 75 to 91 percent of the silver absorbed by China and the rest of Asia. The smaller difference was made up by the silver passing through the Pacific route, which remained stagnant in absolute terms. Since silver represented payment for Asian goods, the obverse was also true, i.e., that the bulk of Asian goods now passed through the great European merchant companies and were destined mainly for final consumption in the continent rather than in Spanish America. (Tea is an example of a good whose main markets lay in Europe rather than America.) De Vries's figures reflect how the activities of the large trading companies such as the EIC and VOC came to constitute the principal intermediaries of silver from the Americas to Asia, eroding the hitherto prominent role of the Manila-Acapulco galleon. The Manila galleon's advantages were undercut by the great merchant companies in three ways: first there was the latter's ability (given China's own change in its policy) to set up shop and trade directly on the Chinese mainland. Second, they were able to use trade surpluses and triangular trade to economise on silver as means of payment. Third, European economic growth and prosperity meant that large European markets for Asian goods could be served, alongside with or as an alternative to the American markets that previously preoccupied Spain.

2.4 Changes in the trans-Pacific trade

On the Philippine side, beginning with the 1734 lifting of prohibitions on silk cargo, the trans-Pacific route appeared for the moment to return to what it had been—a Manila monopoly on paper but a Mexican operation in fact. Nonetheless, as earlier noted, changes in Atlantic policy had already made a major dent by reducing the revenue and profits from the Pacific route owing to the loss of the (formerly illicit) Peruvian market to deregulated private shipping. Even in the latter market, however, the *comercio libre* policy allowed Asian goods imported into Europe to be re-exported to the Americas through either private registered Spanish ships or even via he reinstituted *flota* through Veracruz.

Some data appear to confirm these negative effects on Philippine trade. Bonialian [2010: 426, Cuadro V.2] compares the estimated value of shipments into Mexico City coming from Europe and the Manila galleons respectively, using *alcabala* collections as a proxy.[48] In the 30-year period 1754-1784, imports from Asia into Mexico City represented only an (estimated) 16.7 percent of the total, while imports from Europe made up the bulk, (although it would have been more definitive to compare this to an earlier period).

Even prior to the *comercio libre* initiatives on the Atlantic route, however, the shocking British capture of Manila in 1762—an episode in the Seven Years' War[49]—provoked a deep rethinking of how Spain managed its colonies and their trade in the Pacific. While Manila (as well as Havana) was subsequently returned to Spain under the post-war Treaty of Paris—in exchange for Britain gaining Florida—the event exposed the vulnerability of Spain's colonies under its old system of governance and trade.[50] It provided harsh evidence of the threat posed by the new commercial powers described in the previous section.

[48] The *alcabala* was statutorily set at six percent of the value of the cargo. Bonialian estimates that if *alcabala* proceeds for a given year are T, then the value of the cargo M is simply $T/0.06$.

[49] The Seven Years' War involved mainly Britain and France. Spain sided with France in 1762 as part of the family compact between their Bourbon monarchs but also to opportunistically to take advantage of the situation to attempt an invasion of Portugal. The alliance with the French was defeated by Britain and its allies: Spain failed in its invasion of Portugal. In the meantime Britain captured Manila and Havana in 1762.

[50] An earlier portent of this vulnerability was the 1743 British capture of the silver-laden galleon *Nuestra Señora de Covadonga* which was making its way from Acapulco to Manila.

Francisco Leandro Viana's lengthy and often-cited memorandum[51] [Viana 1907(1765)] was written shortly after the British occupation and its recommendations must be seen in that context. Its value is in illustrating the prevalent mind-set that guided later policy changes, and indeed anticipates many of these changes themselves. Prominent in that report is the assessment that the Philippines' strategic vulnerability was due to its poverty and underdevelopment. Viana's proposals for economic and commercial development therefore were not envisioned primarily as ends in themselves or for welfare-improvement but as means to generate internal resources for stronger defence and a larger military.[52] An improvement in the natives' welfare was at most an appealing by-product. Viana's main proposal called for an increase in tribute collections from the natives to relieve the colony's claim on state finances. On the trade and development side, he proposed a direct connection between the Spain and the Philippines bypassing Mexico—a move that he argued would serve both commercial and political-strategic ends.[53]

Viana thought a direct link to Spain through ships rounding Cape Horn (in today's Chile) would be commercially viable if export agriculture and mining could be developed in the archipelago. (Recall that by this time, *navios registros* from Spain were already regularly rounding the Cape to supply Peru and Chile with European goods; so the idea was not at all far-fetched.) Apart from directly carrying possible Philippine exports to Spain, Spanish ships could sail directly to China, India, and other Asian countries to obtain goods for European consumption.

It was thought this scheme would reduce Spain's (and Mexico's) dependence on third countries for such imports, recoup taxes otherwise foregone on smuggling, and conserve metal specie. Such proposals however would obviously further cut into the business of the galleon trade to the extent it represented an alternative source of supply of Asian goods bound for both New Spain and Spain itself. Viana's 1765 proposal to the crown in 1765 cited the commercial benefits of forming a company with such a monopoly on direct Asia-Europe trade: it could promote the cultivation of export crops (i.e., spices like cinnamon) to be shipped to Spain and to Europe, thus cutting Spain's import-dependence on third countries for such goods and instead even possibly even allow an export of these; it would wrest the supply of European goods to the Philippines away from third countries; and it would displace third countries and the Mexican lobby as sources of supply of Asian goods to Spain, allowing Spain to participate in this lucrative business.

A special commission created by the Council of the Indies in 1768 to review the state of the Pacific route adopted many of these ideas. The commission focused on two well-known illicit activities in the Pacific trade that it thought were responsible for major revenue losses for the Crown [Bonialian 2003: 446]: *first*, from the very beginnings of the galleon trade, large amounts of Mexican silver flowed illegally into the Manila-Acapulco trade that financed Asian imports well beyond what the royal stipulations allowed. (A previous section already noted de Vries's estimate that the Pacific route funnelled anywhere from 4 to 14 percent of American silver production into Asia (mostly China) in 1600-1650.) It was bad enough that American silver financed the imports of Asian goods into the Americas in bloated volumes that went untaxed. What was *second* and worse, however, was that the same Mexican-financed galleon trade indirectly supported the profits of rival European trading powers by providing these with an American outlet for their own Asia-sourced goods. From around the mid-17.C, Asian goods on the galleon bound for Mexico were being increasingly supplied not only by the traditional Chinese junks calling on Manila but also by ships of other European powers putting in either under Muslim flags or using the services of

[51] At the time he wrote his memorandum, Francisco Leandro de Viana (1730-1804) was crown prosecutor (*fiscal*) of the Audiencia of Manila (appointed in 1755, assuming office in 1758). It was while occupying this position that he experienced the British invasion of Manila. After submitting his report on the Philippines to the Council of the Indies in 1765, he was appointed *fiscal* in the criminal chamber of the Mexico Audiencia in the same year, being further promoted to judge (*oidor*) of the same body in 1769. He became a member of the Council of the Indies from 1776 and died in Mexico. For other details, see https://dbe.rah.es/biografias/75237/francisco-leandro-de-viana-vehena.

[52] This concern with defence and strategic advantage over rivals as *ultiima ratio* validates Heckscher's characterization of mercantilism as a system built upon the "power of the state".

[53] Among others, the military-strategic end would be served of facilitating communication between Spain and the archipelago.

Armenians[54] [Giraldez 2015: 114-115]. In fact this situation paralleled that what was occurring in Cadiz itself—already discussed earlier—where the trans-Atlantic fleet effectively served as transport for products of other European countries.

The commission of 1768 then proposed policy-changes to address what it regarded as the commercial and political weakness of the Philippines. Many of these changes were close to what Viana and others had proposed some years earlier and included the following: (a) the formation of a *Consulado de Manila*, a move that unmistakably sought to minimize if not eliminate the participation of Mexican traders in the Philippine trade; (b) a proposal for direct trade between Manila and Asian ports such as Guangzhou, Macau, Xiamen, Madras, Coromandel (actual voyages were undertaken between 1768 and 1776); and (c) direct long-distance trade between the Philippines and the Peninsula.

2.5 The galleon trade revamped: the Manila Consulate

The formation of a merchants' consulate in Manila (*Consulado de Comerciantes*) as proposed by the 1768 commission was implemented through a royal decree of 18 December 1769 (although because of various disputes and clarifications, consulate officials were first elected only in 1771). Manila's consulate was late relative to the earlier set of medieval establishments[55] but predated a spate of Bourbon consulate formations in other ports after the *libre comercio* regime began.[56]

Its main aim was to put more teeth into the provision—already contained in Felipe II's original 1593 decree—limiting the galleon trade to Philippine Spaniards. Behind this measure was the long-standing assessment by the central government that the Philippines' economic backwardness was partly due to the benefits from the enterprise being monopolised and captured by large Mexicans merchants rather than accruing to the Manileños and being invested in the archipelago itself.[57] Earlier attempts had a;lready been taken to restrict Mexican participation, one being the 1744 issuance by the Council of the Indies imposing restrictions on the remittance of private funds from Mexico,[58] which the Mexican merchants had been using to finance their Manila operations [Yuste López 2007: 140]. The formation of the consulate, however, was a more resolute step in the same direction. Yuste López is quite forthright:

> The intent in founding a Consulate in the Philippines was to restore the condition of the merchants of Manila, promote Asian exchange, encourage traffic and trade with New Spain and, *in the long term, eliminate the participation of Mexican merchants in the island's commercial organization*, as well as to direct the benefits generated from trading with Asia towards the metropolis. [ibid.: 150-151] (Emphasis supplied.)

Participation in the galleon trade would henceforth be placed under the consulate and its members, who needed to be Spaniards born in the Philippines (*criollos*) or the latter's descendants, as well as Spaniards who had resided in the islands for at least ten years. A minimum wealth-threshold of 10,000 pesos was required for membership in the consulate. Alternative qualifications were for those of having investments

[54] Prior to 1789, Manila was off-limits in principle to Spain's traditional enemies, making the subterfuge necessary. The Armenians served as agents for the British East India Company through a 1688 agreement between England and Armenia that allowed traders from the latter to establish themselves and trade in British ports in India. Azcárraga [1871: 76, 90, 91, 124, 141] in several places also notes the role Armenians played in as proxies for the British. Essentially, the British in India would sell or consign their wares to the Armenians, who would then sell these in Manila to be loaded on ships bound for Acapulco. Manileños and Mexicans alike were, of course, well aware of this ruse and tolerated it. Giraldez [2015: 115] notes how a distinct quarter was reserved for Armenians in Manila while their ships were in port.
[55] The consulate of Mexico was formed in 1594; that of Lima in 1613. Of course, the Seville consulate was formed much earlier, in 1543, before the transfer of the Casa de Contratación to Cadiz.
[56] Apart from new consulates in the major Spanish ports now opened to American trade, consulates were created in the 1780s in Caracas, Guatemala, Buenos Aires, Havana, Veracruz, Santiago de Chile, Guadalajara, and Cartagena [Woodward 2007: 1578].
[57] Diaz-Trechuelo [2017(1966):530] records the establishment of the *consulado* without explaining its purpose of limiting the Mexican role in the galleon trade.
[58] The said edict prohibited persons travelling to the Philippines from carrying funds that could not be proven to be their own.

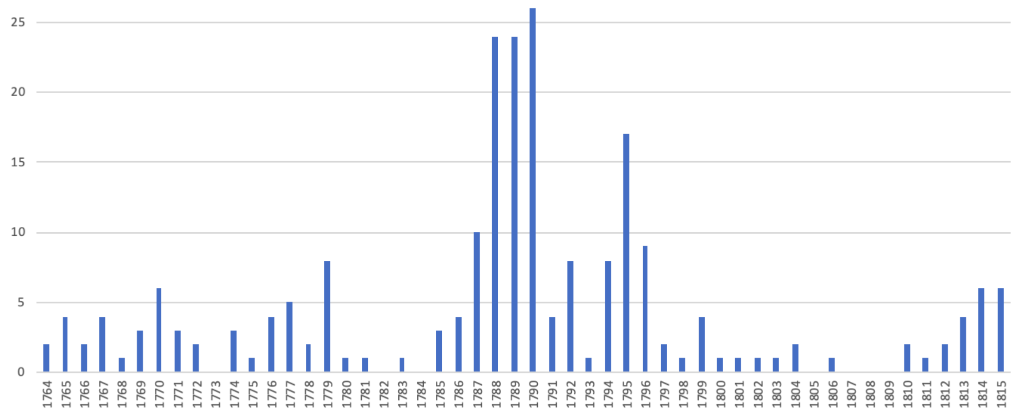
in shipping, agriculture, manufacturing, or livestock.[59] The consulate was now put in charge of allocating shipping quotas to both members and non-members alike (with the priority given to members being an obvious consequence).[60] Extra privileges (double allocations) were given to members who not only possessed the requisite wealth but were also engaged in domestic manufacturing or agriculture, an attempt to encourage investment in internal economic development.

The creation of the consulate was a major redistribution of wealth and opportunity. Under the *consulado* notional cargo space continued to be assigned to privileged nonmerchant interests, such as religious organisations, pious foundations, widows, and some civil and military officials. But these entities could not ship goods directly and needed only to be compensated by merchants for the cargo space imputed to them.[61] The new system therefore effectively restricted the business to large merchants and did away with the former blanket entitlement to lading rights given to all of Manila's Spaniards, who had previously made a living by selling their pre-emptive rights to large merchants. Thus was "cancelled" the formerly inclusive but "mythical" concept of the *ciudad y comercio de Manila* [Yuste López 2007: 205], leading to a concentration of benefits and a greater disparity of wealth among the Manila Spaniards.

A novel concession to the consulate was the permission to travel directly to Asian countries to source the goods for its cargo. This finally scrapped the provision contained in Felipe II's 1593 decree (*Recopilacion*, Book 9, Title 45, Law 34, 11 January 1593) that prohibited the Philippines from dealing commercially with China and enforced the junk-system where Chinese brought the goods to Manila "on their own account and at their own risk". The late lifting of this prohibition, however, merely recognised what was already being practised unofficially, if sporadically. Van Dyke's [2022] valuable summary of Spanish ship-arrivals[62] in Macau and Guangzhou (**Figure 2.**) in the 18. and 19.C. shows ships from Manila (frequently junks and smaller vessels) putting in at Portuguese Macao[63] and at Guangzhou well before the activation of the consulate in 1771. What is evident from these data however is that the frequency of ship arrivals at the two Chinese ports—rarely exceeding five annually before 1787—did not materially change after the formation of the consulate. This level of activity would shift significantly only after the establishment of the Real Compañia in 1785 (discussed further below). Prior to that however, the figures suggest that the prohibition was not a binding constraint on the consulate and that the galleon trade continued to rely on the more customary method of awaiting cargo-laden junks originating mostly from Fujian.[64] While the periods do not completely correspond, that activity is to be compared with the larger number of Chinese ships putting in at Manila (**Figure 3.**) using the older system.

Figure 2. Spanish ship arrivals in Guangzhou (1764-1815)

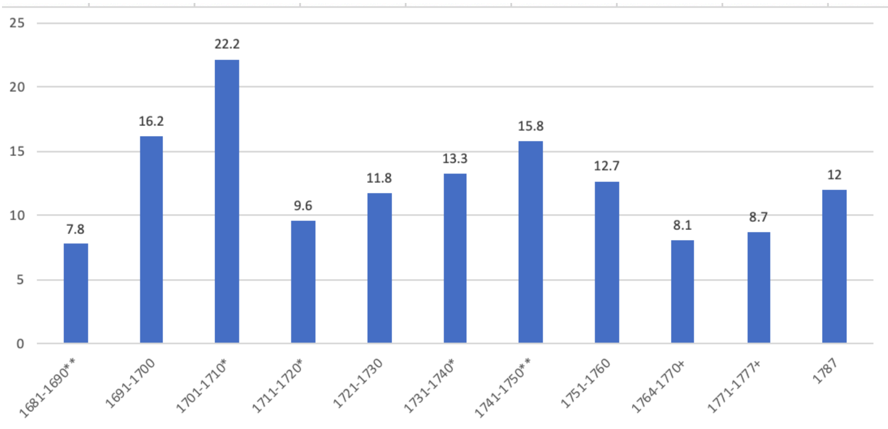
[59] Details on the formation and election of members of the consulate are discussed by Yuste López [2007: 156ff].
[60] This cut out the political intervention by the governor-general, which was a source of arbitrariness and corruption.
[61] Yuste López [2007: 207] estimates that 65 percent of a galleon's cargo was typically assigned to consulate members. By purchasing the 26 percent imputed space assigned to entitled but nonmerchant entities, however, council members actually shipped 91 percent of the cargo. (The small remaining balance was held by galleon officials and the city council (*cabildo secular*) who were also entitled to ship directly.)
[62] Van Dyke is careful to use the term "arrivals", which means the same ship can have made several trips to China in the same year. Hence the count will not correspond to the number of distinct vessels involved.
[63] Docking at Portuguese Macao was obligatory until the Qing government allowed the resumption of maritime trade in 1685. Prior to that, Spanish captains and *sobrecargos* could venture up the Pearl River only by leaving their ships and crew in Macao to negotiate in Guangzhou [Dyke and Mok 2015: xvii].
[64] Van Dyke [2022] also provides numbers of junks coming to Manila originating from Macau and Guangzhou. The small numbers seen do not signify the volume of Chinese goods coming to Manila, since the bulk of Chinese goods were traded from Fujian, data on which are not provided.



Source: Van Dyke [2022: 83 (Table 3)].

In purely commercial terms, this is hardly surprising: the financial and transactions costs of outfitting ships on private account and then negotiating and loading goods directly from, say, Guangzhou, should be compared against any possible cost savings from simply awaiting the arrival of goods in Manila from Fujian: any likely overprice would in any case be justified by the sales proceeds from the American markets.[65] Not until the establishment of the Royal Company of the Philippines would Spaniards would maintain a permanent presence in Guangzhou.

Figure 3. Ships from China, Macau, and Taiwan going to Manila
(Annual averages for 10-year periods, 1681-1787)



Notes: ** 8-year period; * 9-year period; + 7-year period; 1787 is a single year
Source: Data from Chia [2006: 524-525].

In the event, the net effect of the new system was to somewhat tilt the balance of power and financial advantage to the enfranchised resident merchants, who it was hoped would now more effectively dispose over a monopoly that was Manila's to begin with.[66] The consulate now had the sole authority to distribute cargo space both among its members and among outsiders, as well as the sole right to purchase the allocations given to entitled nonmerchant interests. Now of course Mexican capitalists would have to pay for the trading opportunity from members of the consulate. This will have effectively at least *reduced* their rents and partially transferred these to the registered Manileño merchants, since the latter would have set a higher reservation price than ordinary citizens under the old system. It is safe to assume, however, that Mexican capital continued to operate and to constitute the principal investors in the galleon trade. For

[65] It is suggestive of the transactions costs involved that the Dutch towards the end of the 17.C also abandoned their expeditions to China for commercial reasons and similarly adopted the practice of waiting for junks in their base in Batavia, although certainly other factors came into consideration. (See Blussë [1996].)
[66] The situation was thus reversed, where it was now the consulate members who needed to be paid by Mexican nonmembers in order to obtain cargo space on the galleons.

while the convening of the consulate by 1771 eliminated the direct involvement of Mexicans,[67] more than half of the consulate members themselves (consisting of *criollos* and *peninsulares* who met the wealth- and residency-requirements) were actually still partners or agents of large Mexican merchants. Nonetheless, Perez Lecha [2015: 56] is among those who see in the formation of the consulate at least the beginnings of a divergence of interests between Manila merchants and their erstwhile Mexican financiers. To this he partly attributes the occurrence of certain subsequent events such as the failure of fairs in Acapulco, or the delay in sale of galleon cargo—all part of bargaining tactics of Mexican merchants against their Manila counterparts.

It is suggestive of the small capital accumulated in the archipelago at the time—aggravated no doubt by the losses from the recent British invasion—that few bona fide Manileños could even pass the 10,000-peso minimum-wealth threshold. By 1776, participation in the galleon trade according to the original rules was so limiting that the conditions for consulate membership were watered down so that only assets of 4000-5000 pesos and only five years' residence were required for membership [Yuste López 2007: 165].

For another decade or so, the Manila-Acapulco trade subsisted under this arrangement. The consulate even managed to obtain a further concession beginning in 1779 to increase the value of goods re-exported to New Spain by 250,000 pesos,[68] which it began to utilise fully from 1782. This initial "bonanza" [Yuste López 2007] however was relatively short-lived owing to the formation of the Royal Company of the Philippines in 1785.

2.6 Direct links to Spain and the Real Compañia de Filipinas

Not long after establishing the consulate as overseer of the Manila-Acapulco trade, the central government took steps that effectively undermined it. This it did by adopting past proposals[69] to institute direct trade links between the Philippines and Peninsular Spain. The larger objective behind this commercial policy was strategic—to bind the Philippines more closely politically to the central government. Viana's [1907(1765): 272-273] original memorandum had pointed primarily to the governance and geopolitical advantages of a direct link with Spain, especially with respect to the timeliness of communication (and particularly in the outbreak of war[70]); the implementation of government orders; the sending of religious and civil personnel; as well as conservation of metal specie hitherto used to purchase iron and war munitions from foreigners.[71] Given the overriding strategic-political rationale, it was natural that the first attempts at direct trade came from naval warships that visited the archipelago, which also carried trade goods on the side.

Figure 2. The galleon trade vis-à-vis Royal Company routes

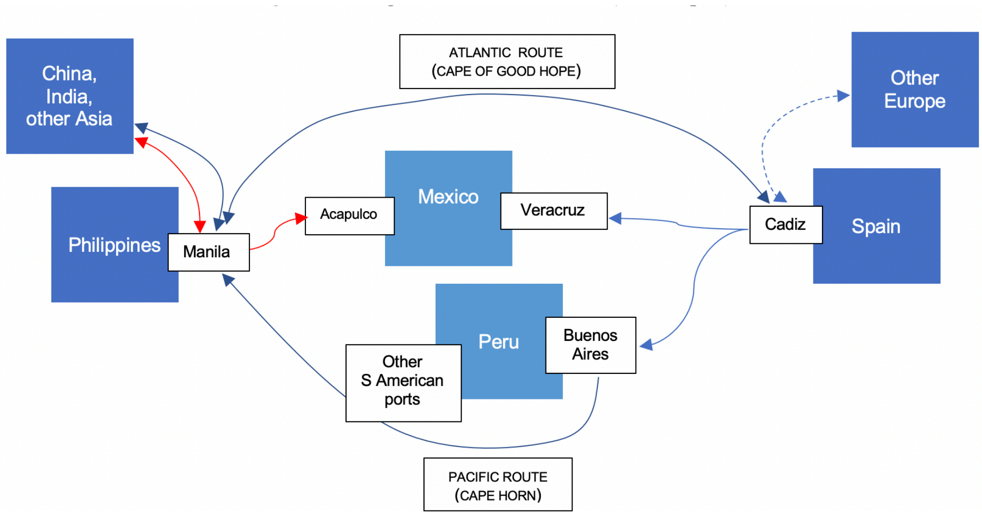
[67] In the first election of the *consulado* only eight Philippine-born Spaniards (*criollos*) passed the wealth requirement; 40 *peninsulares* passed both wealth and residency requirements; and 75 Americans/Mexicans were disqualified based either on deficiencies in wealth or residency. For the respective lists of names under each category, see Yuste López [2007: 159-162; Cuadros 8, 9, and 10].

[68] Originally, this was only for a period of four years but Manila managed to roll it over until the end of the official galleon line in 1815.

[69] Aside from Viana's memorandum similar proposals for direct trade were already made earlier by Calderon Henriquez in 1748 and the naturalized British resident of Manila, Nicols [1759(1907)].

[70] Viana noted with particular distress that the Philippines learned of the war with England only when the English squadron had already appeared in Manila Bay.

[71] Viana applies the mercantilist criterion of conserving metal specie that would have gone to foreigners by importing, regardless of the real resource cost of obtaining those materials from Spain instead.



Note: Blue arrows represent allowable Company ship routes;
red arrows represent the galleon trade route.

From the beginning, however, the venture for direct trade and communication between Spain and the Philippines was viewed negatively by the galleon-trade interests, who suspected (rightly as it turns out) that the innovation was a plan to undercut their business.[72] Nonetheless 14 naval ships managed to ply the Cadiz-Manila route rounding the Cape of Good Hope between 1765 and 1783, the first being the *Buen Consejo* and the last the *Asuncion* [Azcárraga 1871: 118].

In an attempt to establish the Manila-Cadiz link as a viable financial venture, the crown created the *Real Compañia de Filipinas* (RCF) on 10 March 1785, a commercial company endowed with various privileges and given a monopoly over the direct connection between the Philippines and the rest of Asia, on the one hand, and Spain on the other. The RCF was a merger of the former Basque-dominated Guipozcoan Company of Caracas (est. 1728) and the Catalonian-based Barcelona Trading Company (est. 1755)[73]; the directors of the new company were largely carried over from the two earlier establishments. The two former companies had previously held monopolies of trade with Venezuela and the Caribbean, respectively, which had since been nullified with the promulgation of *libre comercio*.

As a commercial proposition, the RCF was a late attempt to emulate the Asian successes of the merchant companies of other major trading countries (notably the EIC and VOC) that had managed to develop direct trade with China and other Asian countries and had converted their colonial possessions into export platforms. Under the decree creating the company, outbound voyages would originate from Cadiz and reach Manila and Asia in either of two ways (**Figure 2.**): (a) eastward by rounding the Cape of Good Hope (the tip of Africa) to reach the Indian Ocean, Southeast Asia, and the Philippines; or (b) westward by sailing around Cape Horn (the tip of Chile) then crossing the Pacific Ocean to reach Manila with an obligatory stop at Buenos Aires. A stopover in Manila was initially required—but later dispensed with (1793)—and the return route was restricted to always follow a westward direction, i.e., via Cape of Good Hope. On the outbound route, company ships would carry European goods and a limited amount of bullion to trade for Asian goods, which were to be obtained from Manila (including any Philippine exportables) or directly from the source-countries like China and India (which initially still had to be

[72] The often-repeated account of the Manileños' hostility tells of how they cynically rechristened the *Buen Consejo* the *Mal Consejo* instead; how the Manila merchants refused to participate in the lading; and how they even deprived the ship some of the provisions (hard tack or biscuits) needed for its return voyage, (see, e.g., Azcárraga [1871: 118]).
[73] More completely, these were the Compañia Real Guipuzcoana de Caracas and the Companyia de Comerç de Barcelona. The former held a monopoly of trade in cocoa with Venezuela, the latter a monopoly over trade in European goods with the West Indies.

brought to Manila before continuing to Cadiz). Directly sourced Asian goods could also be offered for sale to the Manila consulate to then be carried in the galleon for sale in New Spain.[74]

2.7 Consulate versus Company

The Manileños' fears were not unfounded. The company ultimately did not need the Acapulco route to supply the Mexican market and to undercut the galleon line. Without violating its own rules, the company could obtain Asian goods directly from the source-countries and send these to Europe via the Atlantic route; from Cadiz these products could then be re-exported to New Spain—among the concessions given the company was the permission to import 800 tonnes of Asian goods into Veracruz. From February 1785 the company had actively begun to send ships annually to China,[75] and by August 1788 a permanent Spanish "factory" (actually a warehouse) was established in Guangzhou (Canton) flying the Spanish flag [Van Dyke 2015: 38]. The company's activity is reflected Van Dyke's data (**Figure 2**) which show a notable jump in Spanish ship arrivals in Guangzhou especially in 1788-1790. The RFC also established a factory in Calcutta[76] in 1796. Apart from procuring goods directly from Asian source-countries, the company had the added flexibility of filling its ships simply by buying Asian goods in Manila itself before sending these off eastward to Europe. It should be noted that the RCF's initial rules required it to always stop over at Manila before proceeding to its onward voyage (always westward) to Europe.[77] This was regarded as an additional burden, compared to proceeding to Europe directly from China or India. The company contended that loading Asian goods from Manila raised landed costs in Spain by 24 percent for Chinese goods and 44 percent on Indian goods. This was one reason for the company's petition to skip the obligatory stopover in Manila [Legarda [1999: 80]. This restriction was relaxed under article 60 of the later 1803 cedula confirming the RCF's privileges. Thereafter company ships could return to Spain directly from Asian ports.

The charter of the RCF and subsequent legislation gave it extraordinary privileges. The entry of Asian goods carried into Manila (whether by the junk trade or contracted by the RCF) had already been declared duty-free from 1785,[78] so that both the company and the consulate were even on this score. A company cost-advantage would arise however if directly arranged procurement from China and India was cheaper than buying goods unsystematically brought to Manila.[79] This the RCF did by dealing directly with suppliers in Canton and Calcutta. Representatives of these firms could arrange with the Company's Manila-based directors[80] for goods to be brought to Manila for loading onto company ships; the same was later accomplished more directly through the RCF's factors stationed permanently in Canton and Calcutta. From 23 August 1790, the company could even load cargo from India ports and proceed to Cadiz directly without having to stop over in Manila [Diaz Trechuelo 1965: 200]. But the company could

[74] Azcárraga [1871: 130] notes that in this respect the RCF potentially even benefited the galleon trade, since it provided competition to the Chinese merchants who came in junks to Manila who were the original suppliers of the galleons.
[75] Schurz [1920: 500] controverts Azcárraga's [1871: 141] claim that the company had still not managed to send ships to China five years after its founding. Van Dyke's data (see Table 2) indeed shows a dramatic increase of ship arrivals in Guangzhou and Macau in 1788-1790. This follows upon the company's establishment of a permanent Spanish factory in Guangzhou in 1788. It is unknown however whether these ships merely transported factors (agents) or included actual goods.
[76] See Diaz-Trechuelo [1965: 179-189, 200-212].
[77] Legarda [1999: 80] contributes to some confusion regarding the RCF's rules when he cites "the requirement that company ships *acquire all* their Asian goods at Manila" [Emphasis supplied]. This assertion contradicts the express option given the company to obtain their merchandise directly from Asian source countries (see Articles 26 and 31 of the 1785 *real cedula* establishing the RCF). Azcárraga's [1871: 41] criticism cited earlier, although probably factually mistaken, is nonetheless more aligned with the actual rules, i.e., that the RCF had the *option* either to acquire goods in Manila or directly from the source countries. The more relevant point was that even goods that were purchased directly from the source country had to be brought to Manila first in order to fill up the hold of Europe-bound ships.
[78] As provided in Paragraph 29 of the 1785 *real Cedula*.
[79] The company contended that loading Asian goods from Manila raised landed costs in Spain by 24 percent for Chinese goods and 44 percent on Indian goods. This was one reason for the company's petition to skip the obligatory stopover in Manila [Legarda [1999: 80].
[80] This was especially the case for the trade with India.

also export Asian goods from Manila duty-free even as the consulate needed to pay three percent export tax (rates set earlier under *comercio libre*). The galleon cargo then also needed to pay the three-percent import duty at Acapulco. Meanwhile Asian goods imported by the company could enter Cadiz duty-free. Once in Spain, such goods took on a "national character", so that re-exporting these from Cadiz into Veracruz, would only require the payment of a three-percent export duty. Combined with the ability to procure directly from China and India (at frequently better terms than those offered by the Fujianese in Manila), its privileges put the RCF in a more favourable position than the consulate.[81]

In the event, the Mexican viceroy by 1795 reported that the company over the period 1790-1792 had already imported 450,000 pesos' worth of Asian goods into Veracruz [Legarda 1955: 364]. Moreover, recall that from 29 February 1789, Mexico had finally been encompassed by *libre cambio*, so that Acapulco, Veracruz, and San Blas were now open to any and all private Spanish ships without quota limits.

[81] Schurz [1922: 507] quotes an 8 July 1786 communication from the consulate to the king complaining that the company's privileges gave the latter a cost-advantage of 62¾ percent over it. How this figure is arrived at is not discussed.

Box 4. The Manila-India trade

Much of the discussion in the standard literature on Philippine commercial history under Spain deals with the China-Manila-Acapulco trade. Less noticed but more nuanced is the trade between India and Manila. The interest lies in the implicit links between Spain and Britain implied in this exchange [Cheung 1970]. Britain of course dominated Indian trade and had through the East India Company become the de facto ruler of much of the subcontinent specifically after the Battle of Plassey (1757).

Prior to the establishment of the Royal Philippine Company (RCF), the arrival at Manila of Indian goods—often covertly owned by agents of the East India Company trading on their own account or the company's—took place in vessels flying Armenian or Portuguese flags [Quiason 1963]. The exchange occurred in a mode similar to the Chinese junk trade that supplied the galleons: the goods would arrive in Manila without pre-arrangement or prior contract with buyers. Sales and purchases would be agreed on almost on the spot.

The situation changed materially with the establishment of the RCF, which contracted formally with the British East India company as well as India-based private British companies (e.g., Graham and Mowbray) to deliver Indian goods to Manila for shipment on the RCF's ships bound for Europe and the Americas. Until Manila was officially opened in 1789 to all European ships, however, any British cargo from India had to be delivered under the subterfuge of ships flying the Portuguese or Armenian flags, or those of Indian principalities. In 1785 Manila was still formally off-limits to other European ships but Asian ships were allowed to carry Asian goods that were the property of other European powers—which merely legalised existing practice. Owing to commissions and payoffs, of course, this raised the transactions costs and ultimately the prices of such goods. In turn, although without express permission, Spanish ships could also put in at British Indian ports to collect goods they had contracted for—to avoid British ships having to call on Manila. Finally on 15 August 1789, after intense lobbying from the RCF itself, Manila was opened to all European ships, and most pretences could be eliminated.

An even more efficient way to reduce the RCF's cost of goods, however, was to bypass Manila altogether, i.e., to procure the goods from Kolkata (or Guangzhou) then make the direct trip back to Europe. Such a measure however was resisted for some time by the Manila consulate and the local Manila government, since it would undermine the status of Manila as an entrepôt and deprive it of revenues. It was the worsening financial situation of the RCF that finally persuaded the central government in 1796 to grant the permission for the RCF to sail directly to India and install its first resident agent at Kolkata, just as it was earlier given permission to proceed directly to China in 1788. The coalition war (1796-1802) when Spain momentarily allied itself with revolutionary France, however, limited the practical use of that concession; ports on both sides were then closed to each other's ships. Nonetheless the supply of Indian goods to Manila and Europe continued through the services of Indian ports of other nations such as Denmark (at Serampore and Tharangambadi) and Portugal (Chennai), as well as through the traditional ruse of British ships flying flags of neutral countries.

The situation reversed beginning in 1808 with Spain now allied with Britain after the Napoleonic usurpation of government and Spain's pursuit of its war of independence. At that point, British ports in India were expressly opened to Spanish ships and British ships were explicitly allowed to trade in Manila.

Given these previous contacts and practices, the presence in Philippine trade of British ships, merchant interests, and Indian and British goods could only experience a surge in the post-Napoleonic era when a more lasting peace between Spain and Britain was achieved. The stage was then set for the dominance of British interests in the Philippines especially when Manila was opened to world trade in 1834.

The supply of Asian goods not only from the RCF but also from third countries active in Guangzhou and other Asia—effectively re-exporting these goods at times through Spanish ports on Spanish ships—resulted in an oversupply to New Spain. The effect of this competition and market saturation was a crisis for the galleon trade, so that no galleon was sent to Acapulco in the years 1788, 1790, 1792, 1794. Nor were any galleons sent to Acapulco in 1803, 1805, and 1807-1809.[82] Poor market conditions had by then reduced galleon voyages to once every two or three years rather than annually. The years 1801-1805 were especially difficult years when either no galleon was dispatched, or those that were sent returned with unsold cargo (1802, 1804).[83] Besides oversupply, a further factor for the failure of the fairs and weak to the galleon suggested by Perez Lecha [2015: 56] arose from the now-changed relationship between the large Mexican merchants and the members of the Manila consulate. With the Manileños now increasingly functioning in their own behalf rather than as agents of Mexicans, it served the interests of the latter to bargain down the prices by, among others, not holding fairs or purchasing only part of the cargo. Meanwhile 1806-1809 were years of hostilities either between Spain and Britain or between Spain and France owing to the Napoleonic Wars, when aside from poor markets the threat of capture and looting by enemy warships loomed. (Galleons themselves at some point needed to be accompanied by warships for security.)

What is clear is that the creation of the direct Cadiz-Manila route, with the privileges given to the RCF and especially in the context of *libre comercio*, undercut the position of the older institution. The existence of two establishments competing at bottom for the same market was bound to undermine the viability of both. Given market realities, the decline in the galleon trade would probably have occurred even absent the wars and revolutions that disrupted commercial flows towards the turn of the 18.C. It is worth inquiring into why colonial policy seemed to work at cross-purposes. Schurz [1922: 502] speculates:

> Just what were the ultimate ideas of the *peninsulares* at this time as regarded the disposition of the galleon trade we cannot say. They might gradually encroach on the field of that line until it died of inanition. Thus the concession to import into Vera Cruz 800 tons of goods a year may have been a deliberate and none too skilfully planned move in this direction; for the Manileños recognized the evident sinister probability for their established interests contained in this permission which was granted to the company

It seems reasonable to conjecture that the peninsular government initially thought the formation of the consulate would suffice to achieve colonial objectives, which from a highest-level mercantilist view were defence against rival powers and a consolidation of government finances. The dilemma posed by the Philippines was that of an outpost of great strategic potential but one that represented a drain on the treasury. The successful British occupation of Manila however demonstrated that an economy based entirely on the carrying trade—despite augmentation by native taxation and an annual subsidies[84]—was inadequate to finance the colony's defence, and even less to generate additional revenues for the central government. A large part of the problem was attributed to the smuggling and the capture of the bulk of the gains by Mexican merchants. The broader solution proposed by Viana and others was to foster the internal development of the archipelago so that the colony would become financially self-sustaining, ultimately supporting its own defence. The end-state envisioned by these proponents was an emulation of

[82] This enumeration is based on the annotated list by Fish [2011: 492-523], which includes galleons that were dispatched but were either captured or shipwrecked. To suggest the diminishing interest in and profitability of the trade, Yuste López [2007: 367] enumerates the years when a galleon "did not arrive" at Acapulco and includes the year 1799. However, Fish lists the voyage of the *San Fernando*, which was actually attempted but then abandoned.
[83] This relies on the annotations by Fish [2011].
[84] To what extent maintaining the Philippines as a colony represented a drain on colonial finances has been the subject of some controversy. The answer that seems to emerge is that the situation varied through time. Alonzo [2003: 65ff] divides the stages of the Philippine financing into the following: (a) a period of "fiscal autonomy" (1564-1604) when the colony was largely self-supporting based on native tributes, the *almojartifazgo* and other trade taxes; (b) a second period (1604-1650) when it received large regular supplements from Mexico to support increased military expenditures in the face of war; (c) a peaceful period from the end of the Thirty Years' War when the subsidy was reduced to a minimum (1650-1760); (d) the period after the British capture of Manila, which saw a sharp increase in the subsidy (1765-1782); and finally (e) the period of "fiscal sufficiency" when the tobacco monopoly, combined with native tributes, even allowed the Philippines to remit regular amounts to the colonial power.

British and Dutch colonies in Asia, where a colonial pattern of trade (i.e., agricultural and mineral exports from the periphery in exchange for finished goods from the colonial metropolis) would result in wealth-creation that would enlarge private wealth and yield higher tax revenues to support both administration and defence costs. These goals and vision were implicit in the rules establishing both the consulate and company.

In other Spanish dominions, similar late Bourbon-era *consulados* were assigned the task of undertaking the economic development of their areas, mostly through infrastructure investments but also education and training facilities, aside from lending to the monarchy [Woodward 2007: 1579]. That this formed part of the initial expectations from the Manila consulate[85] can be seen in the attempt to dangle double-shares in lading rights to merchants with interests in agricultural or industrial production. The likely calculation was that by weakening the Mexican grip over the trade, more capital would end up in the hands of residents and make them better able to invest in productive activities. In this the central Spanish authorities seem to have miscalculated in two respects. First, the amount of wealth generated by the galleon trade's profits, even when concentrated in the consulate, would never have sufficed to finance a programme of full colonial development. (And it should be remembered that the extirpation of Mexican merchant interests was never complete, and that and the latter continued to share substantially in the profits from the galleon.) Second, the entrenchment through the centuries of the rent-seeking practice among the Manila Spaniards meant that these were unlikely to be the agents of change in shifting activity away from being trading to goods-production.

Given the demonstrated lack of initiative of the Manila consulate, the establishment of the company may have been thought to be a necessary alternative effort.[86] The apologia of the RCF [1813: 9-10] as late as 1813 speaks of two original objectives in forming the company, namely: "to preserve and develop (*fomentar*) islands far removed from the Peninsula that were as unproductive (*estéril*) for the State as they were for themselves" and "to use this same development to help redeem the State from the custodianship that foreigners have sought to maintain over it, so that [the State] should no longer participate in a commerce where [foreigners] profit considerably from consumption by Spaniards". The persistently mercantilist goals behind the company's establishment are evident and interesting in view of the growing liberal trend in domestic policy at the time.[87] Still the concept was significant in two ways: first, it introduced new capital from the Peninsula into the colonial enterprise, part of which was specifically designated to be devoted to productive activities. In exchange for its privileges, the RCF was obliged to invest four percent of its profits in internal economic development, particularly the export of colonial products. Second, it bypassed both the Manila and Mexico City merchants as possible agents of internal economic development.

Yet, even the RCF proved unequal to this appointed task. To begin with, as Legarda [1999: 80] points out, the internal development of the Philippines was not the company's sole concern: indeed its business was global and in fact most of its profits derived from its other activities, particularly the business with the Americas and Europe. Data up to 1789 presented by Legarda (organised in tabular form as **Table 2.**), shows that the bulk of the company's profits up to that point arose from its export business in the

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[85] See for example the memorial by the intendant Gonzales Carbajal who proposed to distribute the galleon lading rights to those who could invest in agricultural and industrial development (cited by Schurz [1985(1939): 136]).
[86] The 1813 apologia by the RCF criticizes the interests in the galleon trade for being "satisfied with the profits it yielded" and that they "never thought of using part of their capital to increase and improve the islands' agriculture and industry" [RCF 1813: 2].
[87] The main proponent of the RCF's establishment was the financier and entrepreneur Francisco Cabarrus (1752-1810), who was aligned with the circles around Carlos III that advocated liberal reforms, especially in agriculture. Cabarrus was a close friend of the liberal reformer Gaspar Melchor Jovellanos and a supporter of Pedro Campomanes's proposals for free trade in grain. Indeed Campomanes's opinion on the company was solicited in 1790 when a new cedula defining the RCF's privileges was being considered [Trechuelo-Diaz 1965: 68-70]. Campomanes notably supported the continued prohibition of direct Asia-America trade and supported discriminatory preference in the trade in some goods. Thus, the Enlightenment thinkers under Carlos III advocated domestic free trade and even radical property reforms but still favoured national exclusivity when it came to the aims of foreign trade and the management of colonies. (See, e.g., Guasti [2021].) This viewpoint was already reflected in the *libre comercio* decree.

Americas, in which however only a small fraction consisted of Asian goods. This should therefore be understood as mostly supplying the Americas with *European* goods. Implicitly, with only a small part of RCF's Asian imports going to the Americas, the major destination of such goods was Spain and the rest of Europe. Meanwhile exports (presumably of European goods) to the Philippines and imports from the Americas were relatively minor or unprofitable. (The last column, "relative profitability", compares profits from each specific branch of trade to the company's overall profits; thus exports to the Americas are twice as profitable as the average profit overall for the RCF. The profitability of imports from Asia is about three-fourths of overall profitability; and so on. It will be seen that the export of European goods to the Philippines is the least profitable.)

Table 2. Direction of trade and distribution of profits of the RCF, up to 1789

	Share (%) in total trade	Share (%) of gross profits	Relative Profitability**
Exports to the Philippines	28	1	0.04
Exports to the Americas*	31	63	2.03
Imports from Asia	29	21	0.72
Imports from the Americas	12	15	1.25
Totals	100	100	1.00

*Of which 2 percent are Asian goods. **Equals profit share divided by trade share; authors' computations.
Source: Legarda [1999: 80]

The displacement of the Americas as the RCF's major market for Asian goods reflects the self-defeating oversupply of such goods (i.e., from the RCF itself, the Manila galleon, and private ships operating under *comercio libre*). But it also shows the rise of Europe including Spain as major consumer markets for such goods and as exporters of their own products.

Major changes in demand and technology had begun to disrupt the Spanish advantages in the Asia-America and Asia-Europe trade. First, as discussed in Section 2.3, the status of bullion as a privileged means of payment in Asia was being undermined by the ability of competing powers to run surpluses in real goods through triangular trade to and economise on the use of specie through bills of payment and other modern payment devices. Second, changes in consumer tastes led to a waning demand for the traditional Asian luxury goods such as spices, silks, and porcelain and the emergence of new fads and fashions like tea, opium, and cotton goods. Third, political control over these commodities had come increasingly under the control of Spain's major colonial rivals. Notably opium and tea were being cultivated in India under British auspices. Cotton goods were also coming not only from India but also Britain itself with the stirrings of the First Industrial Revolution. Finally with rising income, Europe itself was becoming a major centre of consumption.

Meanwhile, as already described by Legarda [1999: 81-84], the RCF's investments in direct production in the Philippines (comprising indigo, sugar, pepper, raw cotton, and cotton fabrics) were highly uneven at best. Beyond sporadic exports of indigo and sugar, most of the efforts ultimately proved unsuccessful and unsustained. Part of the problem was the somewhat loose and detached manner in which the company pursued its agricultural business: the company typically merely gave advances or set buying prices to induce independent Filipino farmers to plant the crop that they thought had export prospects. Later writers such as Azcárraga [1871: 26] lamented the absence of large plantations in the country—such as the British ran in Sri Lanka and Malaysia—and the fact that "the lands, which are highly subdivided and for the most part neither delimited nor well-defined as property, are to be found in the hands of the natives, who have neither the resources nor the knowledge to apply those agricultural advances that are so common in Europe". Azcárraga compares the country unfavourably to Cuba (by his time the only other major remaining Spanish colony), "where the cultivation of tobacco and sugar cane is brought to the highest perfection because wealthy capitalist businessmen based there bear the great expenses for the exploitation of their lands, something the small farmer is incapable of doing".[88] Apart from technological and scientific obstacles and the sheer insufficiency of investible capital, the RCF's somewhat half-hearted

[88] Azcárraga [ibid.] does note that the Cuban system was plagued by labour shortage, making slave imports necessary. This he denounced as an unreasonable cost item, for "[s]ound economic principles teach us that free labour is cheapest and the best".

reliance on production loans and price incentives being extended to loosely organised small holders and the scarcity of capitalist-entrepreneurs cannot be ruled out as among the reasons for the failure of its agricultural ventures. The company at first made cash advances to cultivators and would-be entrepreneurs, with highly mixed results that resulted in company losses. Azcárraga [1871: 145] also blamed institutional factors, such as the country's lenient laws that absolved defaulting native farmers of liabilities arising from loans exceeding five pesos in amount. Stung by such losses, the RCF later withdrew from advancing production loans altogether and resorted merely to buying whatever produce cultivators offered for sale. Its last attempt at a production venture in 1802—the attempt to buy a Laguna hacienda planted to indigo, cinnamon, and coffee among others—was disapproved by the Madrid directors in view of the company's precarious finances. It was ordered instead to concentrate its efforts on trading. This was "the moment that signaled the cessation of any action by the company in favour of the Philippine economy" [Diaz-Trechuelo 1965: 277-278].

Box 5: Forced crop cultivation

> Prior to the institution of the tobacco monopoly or trading ban (*estanco*), assume that the typical farmer is self-sufficient, allocating a fixed and inelastic labour supply L in the production of two goods, tobacco, x, and a food crop, y (e.g., rice), which are directly consumed, yielding a utility $u = u(x, y)$. The two goods are produced under the production functions $x = f(a)$ and $y = g(b)$ (f and g being of the usual twice-differentiable forms) using only labour inputs a and b, with $a + b = L$. The farmer's problem is max $u(x, y)$ s.t. $x = f(a)$, $y = g(b)$, $a + b = L$ The usual conditions $(\partial u/\partial x) f'(a) = (\partial u/\partial x) g'(b)$ and $a + b = L$ allow one to obtain the triple (x^0, y^0, a^0) that maximises u.
>
> With the introduction of the monopoly, the farmer's production is now defined by $x^* = f(L)$, and $y^* = g(0) = 0$. This captures the forced cultivation of tobacco and the prohibition of the cultivation of other crops. At the same time, a buying price p for tobacco is stipulated (letting y be the numeraire whose price is 1), so that the farmer's consumption possibilities under the monopoly are constrained by the budget $px^* = px + y$. That is, the farmer uses the proceeds px^* to buy tobacco for his own consumption as well as rice.
>
> For consumption under the monopoly to be no worse than that under self-sufficiency, the bundle (x^0, y^0) previously chosen and enjoyed under self-sufficiency must be at least attainable under the dictated prices, i.e., $px + y = px^* \geq px^0 + y^0$, or $p \geq y^0/(x^* - x^0)$. That is, p must be high enough for the farmer to at least afford the same quantity of the food crop as under self-sufficiency. It was precisely the scheme of the monopoly however to lower the buying price of tobacco (i.e., raise the relative price of food). Hence the welfare loss to the farmer becomes inevitable. At the same time, it is obvious that the scheme produces the maximal amount of tobacco.

In the event, the effort to transform the Philippines into a fiscally viable colony ultimately did not turn on either the consulate or the company, or even on private Spanish ventures more generally. Rather it turned on a government monopoly. It was the scheme of Governor José Basco (in office 1778-1787) to implement the compulsory cultivation of export crops such as abaca, areca (betel), and most notably tobacco (1781/82), that finally brought a steady source of revenue, and later exports, to the Spanish government. Peasant families in Central Luzon and Cagayan were assigned production quotas for tobacco, which were then bought by monopoly agents at prices set artificially low as a rule. Since farmers in the tobacco zone were not allowed to plant other crops in their fields, self-sufficiency was eroded and labour input was effectively controlled [Corpuz 1997: 119-123].[89] This also meant farmers were forced into a money economy in order to procure their other requirements, notably food. (See **Box 5**.) The scheme "worked"—i.e., for the central government but far less so for Filipino cultivators—mainly because it was exploitative and confiscatory. The tobacco monopoly set in motion the later trend of regional crop-specialisation, since the deficit of some regions (notably food crops) had to be made up by surpluses from others. This trend would be enhanced later with the entry of foreign capital.

[89] Corpuz [1997: 120] notes that the quota system was applied only in Luzon and not in the Visayas, where farmers were still free to plant what they wanted and the monopoly merely bought what such farmers offered for sale.

There has been some discussion regarding the original idea for this scheme. Pelzer [1974] surmises it derives from the *priangan* system of coffee-cultivation that existed in Java under the Dutch in the early 1700s, which was also the inspiration for the "culture system" (*kulturstelsel*) later instituted (1830-1870) in all Indonesia by the Dutch governor Johannes van den Bosch.[90] Such an account is incomplete at best, however, since it neglects the fact that tobacco monopolies for revenue were already instituted earlier by Spanish colonial authorities as part of the general Bourbon scramble for revenues. Based on royal orders, various forms of tobacco monopoly were established well before that in the Philippines, to wit: in Cuba (1717), Peru (1752), Chile and La Plata (1753), New Spain (1765), and Venezuela (1779) [McWatters 1979]. Far from being an innovation, therefore, Basco's institution was a straightforward implementation of what was by his time a well-known recourse—and indeed a decree—for generating additional revenues.

3. Stumbling into liberalism and free trade

Free-trade ideally entails non-discrimination as to the sources of supply, means of conveyance, and market destinations; price alone (adjusting for quality differences) becomes the choice criterion for sale and purchase. This contrasts with mercantilism—whether feudal or Colbertist—which is built on privileged access through monopoly, prohibitions, quotas, or differential tariffs and duties. It is will seem paradoxical therefore that Manila's opening to free trade arose from the desire to extend further privileges to a monopoly.

3.1 Slow retreat from mercantilism

Already part of the privileges of the Royal Philippine company at its founding in 1785 was the duty-free entry of goods brought in by Asian carriers [*Real Cedula* 1785, Art. 29]. The purpose was "to facilitate the easy acquisition of goods and products of the Orient useful to [the company's] business". This of course included the junk trade with China associated with the galleons, as well as shipments of goods from India autonomously brought to Manila or contracted by the RCF. The Indian trade was already long dominated by the British, an open secret only thinly disguised by their use of flags and captains of other Asian countries but also of Portugal and Armenia.[91] Legarda [1999: 84] notes that the 1785 measure merely legalised the trading practices and patterns that had previously existed even under the galleon trade and so it brought no real increase in commerce. Azcárraga [1871: 141-42] however observes that even under this scheme, the holds of the company's ships loading goods at Manila still could not be filled.

Four years later, a royal decree dated 21 August 1789 further opened Manila to duty-free entry of Asian goods, carried not only under Asian flags but by *all* (including European) vessels. This step, initially granted only for three years beginning 1 September 1790, was extended to seven years "until Manila became de jure an open port" [Legarda 1999: 85]. This move has been invariably heralded as a decisive step towards freer trade. In principle, however, it stemmed from the desire to reinforce the RCF's privilege and monopoly. The hope or "vision" of the central government had always been to entice more Asian shipping to call on Manila, developing it as an emporium given the company's purchasing activities in addition to the those of the consulate. The permission given to other nations to supply Asian goods to Manila was meant to force down prices through competitive supply, benefiting company and consulate alike. As Legarda [1999: 85] notes:

> It was to everybody's interest in the trade to facilitate it by reducing these costs—the galleon traders to get cargoes for Acapulco, the company to get cargoes for Cadiz, and the English in India to get silver for their China ventures.

While not part of the intention, allowing European ships to call freely on Manila—although in principle allowed to carry only Asian goods—opened the door for the (technically still prohibited) entry of

[90] Basco and Bosch's systems differed in their immediate objectives however: the latter was interested in generating a surplus output for exports; the former's aim was to earn a surplus revenue for government.

[91] The Armenians played a role as surrogates of British interests even in the previous century. On their trade role during the time of the RCF, see Cheong [1970: 6-7].

European goods supplied by these third nations [Azcárraga 1871: 143]. The entry of European goods into Manila undercut the RCF's monopoly of this function. On the other hand, the RCF's interest in supplying Manila with European goods cannot have been keen, considering the small size of the market and despite its complaints it may have regarded the losses as insignificant. As seen in **Table 2.**, supplying European goods to the Philippines would not have been a big profit driver compared to selling Asian goods to Europe and the Americas.

Not even such measures sufficed however to save either the consulate or the company, nor significantly enhance Manila's position as a major trading centre. As already discussed in Section 2.7, changes in demand (e.g., cotton goods, tea, opium over silks, porcelain, and spices); innovations in means of payment (e.g., bills of exchange instead of metal specie); and advances in technology (i.e., the rise of industrial textile production in the leading capitalist countries) converged to undercut Manila's advantages as an indispensable Asian emporium. This was nowhere more evident than in the RCF's petition—granted in 1790—to completely bypass Manila in its voyages between India and Europe. Towards the close of the 18.C. we see a gradual unravelling of the entire mercantilist enterprise, with the central authorities gradually but progressively retreating from restrictive trade practices.

3.2 *Wars and relations with Britain*

One cannot disregard the disruption of trade routes due to the perennial inter-imperialist conflicts among European powers since 1780, a factor cited by Yuste López [2007: 368] in explaining the demise of the galleon trade. Vicens Vives [1965: 576] similarly points to the Napoleonic wars as a major reason for the demise of the company. In this turbulent period, it enough to focus attention on Spain's shifting relations with Britain, the dominant naval power and main threat to Spanish commercial shipping. Spain had initially joined other monarchies including Britain in declaring war on revolutionary France in 1792 but after military setbacks, Spain later made peace with France and signed a Spanish-French alliance in 1796 under Carlos IV's prime minister Manuel Godoy.[92] This alliance however required Spain to declare war on Britain, and a state of war existed between the two countries until 1802, greatly disrupting Spain's commerce with its colonies owing to a British blockade. Hostilities were briefly suspended from 1802 under a treaty[93] but resumed in 1804 when a British squadron—without a declaration of war—ambushed a Spanish fleet carrying silver and gold coin from the Americas. Spain was still allied with France when Napoleon invaded Portugal (1807), but this alliance was broken after Napoleonic France occupied its erstwhile ally (1808), forced the abdication of Carlos IV and his heir Fernando VII, and replaced them with Napoleon's brother Joseph Bonaparte. Popular resistance to the French occupation—and its brutal suppression—provoked the Spanish War of Independence.[94] The Spanish war against the French was coordinated by a supreme junta (1810) supported by Britain and other countries opposed to Napoleon, the so-called Fifth Coalition. Spain's alliance with Britain continued until the defeat of Napoleon (1812) and the thwarting of his comeback (1815).

Vicens Vives [1965: 556] summarises the effects of these conflicts as follows by: "When England and Spain were at war, the superiority of the enemy's fleet was such that Spanish-American trade was for all practical purposes blockaded. When peace was signed, on the other hand, inter-imperial mercantile activities quickly recovered their prosperity." Politically, likely owing to the great distances involved, there was no break in colonial rule of the Philippines. The Napoleonic rulers of Spain did not appoint a new governor general: Mariano Fernandez de Folgueras, who presided as governor-general during the entire period of the French occupation (1806-1810) professed continued allegiance to Fernando VII.[95] Nonetheless Pacific trade was also disrupted so that, as already seen, no galleons were dispatched from Manila during the period of shifting alliances 1807-1809.

[92] This was the Second Treaty of San Ildefonso, which could be viewed as a continuation of the 1733 *Pacte de Famille* among the ruling Bourbons in both countries.
[93] The Treaty of Amiens ended hostilities between Britain, Spain, and revolutionary France prior to the rise of Napoleon.
[94] The popular Spanish resistance and the retaliatory executions by the French were famously depicted by Goya in his paintings "El dos de Mayo 1808" and "El tres de Mayo 1808", respectively.
[95] Fernandez de Folgueras returned as governor-general in 1816-1822.

An unplanned but ultimately more significant effect of Spain's alliance with Britain was the permission given in 1809 by Governor Fernandez for the first English trading house to establish itself in the Philippines.[96] Azcárraga [1871: 150] applauds this signal measure, wondering at the way "wars are the rousing bells that effect great revolutions in legislation, awakening peoples from their lethargy". It was the opening of the country's doors to direct foreign investment by the leading capitalist countries that would prove decisive in the exploitation of the archipelago's resources. By 1818, the central authorities ordered that all colonies, including the Philippines, would be open to receiving ships from all nations and the establishment of foreign presence in them would be allowed [ibid.]. In practice, the establishment of foreign houses was permitted only on a case-to-case basis, for fear of infringing the privileges of the RCF, which still existed.

3.2 The Cortes of 1812 and the suppression of the official galleon trade

A further boost to liberalism —again unintended—as a consequence of the Spanish war of independence was the shift in the centre of political power from the monarchy towards the newly constituted Cortes[97] that became a bastion of liberal ideology. The Supreme Central Junta, which had been the de facto executive and legislative power in Spain during the war, decreed (14 February 1810) that a Cortes (parliament) was to be formed with elected representatives from all Spanish provinces and colonies, including the Philippines. Ventura de los Reyes was the elected representative from Manila. Meeting from late 1810 to 1814, the Cortes promulgated the radically liberal 1812 Constitution—more liberal than any other on the continent at the time—which established a "limited hereditary monarchy" checked by parliament as well as an independent judiciary, asserted civil rights including a universal (male) suffrage, declaring as citizens all free males born and residing in Spanish dominions, including the Philippines. In separate legislation, the Cortes also abolished the inquisition, affirmed free speech, a free press, free enterprise, and abolished feudal privileges (*fueros*) and forced labour.

In relation to the Philippines and in keeping with its liberal ideology, the Cortes was receptive to the proposal to do away finally with the galleon trade, although ideas and rationales for it differed. The governor-general Manuel Gonzales (de Aguilar) had earlier (7 July 1810) proposed the "elimination" of the galleon trade. The reasons he gave (as cited by Elizalde [2013: 341]) repeated previous arguments, namely, that the existence and lucrativeness of the galleon trade diverted investors' attention from the development of Philippine industry and agriculture. He also asserted that the import of Asian goods served as a disincentive to domestic industry. Such a diagnosis approximates what modern economics call the "Dutch-Disease" or booming-resource problem [Corden and Neary 1982], namely, where capital and entrepreneurship are drawn away from the production of tradables owing to the greater attraction of another activity (e.g., a mineral resource or, in this case, the lucrative Acapulco trade).

What "elimination" or "suppression" of the galleon trade meant in this context however must be clarified. From Gonzales's argument, the consistent (and radical) meaning of elimination would have been to end the Pacific exchange altogether. Only such a measure would achieve the purposes Aguilar adverted to, namely, to reduce—and indeed to eliminate—the profits from the Manila-Acapulco and to halt the inflow of Asian imports by closing off its main outlet. The argument merely takes the Colbertist argument a step further. Recall that the indolence of the nao interests with respect to promoting internal Philippine development was already part of the basis for the founding of the RCF as an alternative agency. The latter however also proved unequal to the task and by 1802 had abandoned any further attempt at promoting industry or agriculture. The RCF chose instead to concentrate on the more profitable direct China-India trade with Europe, indeed bypassing Manila.

[96] The identity of this first establishment is unavailable from current records and literature.
[97] The absence of Fernando VII (who was imprisoned in France) meant the resistance to the French and Joseph Bonaparte fell to the Supreme Central Junta, which had been formed to coordinate the many smaller provincial juntas that waged guerrilla attacks against the French that augmented the British offensive against Napoleon. (It is worth remembering that the etymology of the word *guerrilla* (= "little war") dates from the Spanish war of independence.)

The Cortes supported the elimination of the Acapulco trade in principle (8 October 1811) but delayed the measure's announcement until the formulation of a more general trade policy reform for all Spanish dominions [Elizalde 2013: 344]. The matter was brought up again in the Cadiz Cortes sessions by the Filipino deputy de los Reyes, who urged the decree's immediate promulgation. Instead however a lengthy discussion ensued that covered the direction of overall Spanish policy. The substantive result that emerged was not the ending or throttling of the Manila-Acapulco exchange itself but rather the end of the consulate's monopoly. Financially, it ended the long-running government subsidy extended to the consulate members in the construction and outfitting of galleons. Instead it gave private merchants besides consulate members the liberty to trade with other ports of the Americas besides Acapulco (notably San Blas) though this was to be done at their own expense.[98] The final decree "suppressing" the galleon trade was issued on 14 September 1813. In effect this fully implemented *comercio libre* in the Asia-America leg of Spanish commerce.

Two points about this "suppression" should be noted however. First, the exchange even as envisioned was still not entirely "free", since quota limits in terms of value were still in force, namely, an upper limit of 500 thousand pesos on outbound cargo and one million pesos on the return. It would appear moreover that the rights under such a quota were still allocated by the consulate [Legarda 1999: 96]. Second, the effect of such a measure on its face would hardly have achieved the desired effect of channelling entrepreneurship and capital away from trade and towards production. If anything, the measure would have broadened investor interest in the trade with America because it opened up further American ports and let in other players the large merchants in the consulate.

In the meantime, global events intervened when Fernando VII, freed from French captivity and restored to the throne, re-established absolutism: by his decree of 4 May 1814 he abolished the Cortes, arrested many of its members, and nullified most its acts. This turn of events however had no significant effect on the trajectory of the trade regime of the Philippines. For Fernando VII reaffirmed the suppression of the official galleon in an order dated 23 April 1815. Permission was granted for Manileños to continue exporting (albeit now on private account) 750,000 pesos' worth of goods[99] with the ports of Callao and Guayaquil now included, as well as the northwest Pacific coast, and the freedom to trade with any port in the Spanish monarchy as long as Spanish ships were used [Blair and Robertson 1908 (v. 51): 286, fn. 10 and 11]. The sources lack detail however regarding how this trade was financed and particularly whether Mexican merchant involvement in the trade continued or was weakened.

The Napoleonic wars weakened colonial rule in Spain's American colonies and inspired independence movements. Most notably by 1810 the Mexican war of independence (which was to persist until 1821) had started, posing a separate threat to the galleon trade. The galleon *Magallanes* (alias *Rey Fernando*) sent to Acapulco in 1811 was famously detained at Acapulco for four years on orders of the revolutionary leader José Morelos. This was the last galleon of the *official* Manila-Acapulco line after the official suppression of the galleon system.

Table 3. Ships travelling between Manila and Mexcico after the suppression of the galleon trade (1816-1821)

Year	Ship	Destination	Year	Ship	Destination
1816	*Santa Rita* (*Mercante*)	Acapulco	1819	*Feliz* (*Emprendador*)	San Blas
	Feliz (*Emprendador*)	Acapulco		*San Juan* (*Espina*)	Acapulco
1817	*Nuestra Señora del Carmen*	San Blas	1820	*Feliz* (*Emprendador*)	Acapulco
	Maria	Acapulco		*Maria*	San Blas
	San Ruperto (*Aventurero*)	San Blas		*Paz*	Acapulco
	Victoria (*Manileña*)	Acapulco		*Nuestra Señora del Carmen*	Acapulco
	Santa Rita (*Mercante*)	San Blas	1821	*Nuestra Señora de Atocha*	Acapulco
1818	*Maria*	Acapulco		*Snipe*	Acapulco
	Paz	Acapulco			

Source: Pérez Lecha [2018: 112, Table 2].

[98] It should be remembered that in contrast the Nao was provisioned at government expense.
[99] Note how this quota was even larger than that allowed under the act of the Cortes.

Nonetheless it is important to establish that the merchants of Manila continued to send galleons to Mexico until 1821. As already noted the official suppression only meant that the consulate could no longer rely on government-financed ships but could still send private (Spanish) vessels fitted on their own account [Blair and Robertson 1908 (v. 51): 286, fn. 10 and 11]. Notwithstanding the continuing unrest in New Spain, the Manila merchants were probably encouraged by the fact that the turmoil in Mexico was sporadic, and Acapulco and Mexico City did not fall to the Mexican revolutionary forces until 1821. Perez Lecha [2015: 53] relying on Mexican sources indicates an even larger number of ships—*seventeen*—travelling to Mexico (Acapulco and now including San Blas) during the post-abolition period 1816-1821.[100] This number is significantly greater than the figures cited by earlier scholars for 1814-1820 (i.e., eight according to Martinez Shaw [2007]; nine according to Cheong [1971]; eleven according to Valdez Lakowsky [1987]; and ten following Fish [2011: 515-516]).[101] The exact number is perhaps less important than the establishment of the fact that the Manila-Acapulco trade continued well after the official galleon trade was abolished, putting to rest the misconception that trade between Mexico and the Philippines ended in 1811 or 1815.[102]

Table 4. Values of cargo from Manila to Acapulco and vice versa
(in millions of pesos)

Period	Value of cargo Manila to Acapulco	Annual value	Value of cargo Acapulco to Manila	Annual value
1785-1794	3.275	0.328	10.210	1.02
1795-1804	4.679	0.468	17.028	1.70
1805-1815	3.208	0.321	8.942	0.89
1816-1821*	2.953	0.492	1.424	0.14

Source: Pérez Lecha [2015: 49, *53]

The paucity of records after 1812 makes it difficult to assess whether the Fil-Mexican trade rose, fell, or remained the same after the abolition of the galleon monopoly. There is no argument that the Pacific trade fell drastically after 1821 when commercial relations between the Philippines and Mexico stopped. The general supposition however has been that there was a consistent decline between 1812 and 1821 following the revolutionary turmoil in Mexico (see, e.g., Legarda [2002: 126-127]). Pérez Lecha [2018: 53] argues however that between 1815 and 1821 the returns from the Manila-Mexico trade were likely to have remained fairly stable, if they did not actually increase relative to the previous decade, a period of disruption caused by the Napoleonic wars. He cites as evidence the large number of private ships (**Table 3**.) still plying the route and also records a value of outbound cargo over the period 1816-1821 of some three million pesos from Manila, consisting mostly of Asian goods (**Table 4**.). The anomalously smaller inbound values (around one million pesos recorded from Acapulco) are attributed to delayed remittances of sales proceeds or profits—or a transfer of the centre of sales to San Blas (Nayarit province).

Parenthetically, the incongruity of Ventura de los Reyes's proposal before the 1812 Cortes to abolish the galleon monopoly and its rationale will be recalled. Ventura's argument for ending the galleon trade differed from that of Gonzales de Aguilar. Ventura did not oppose the continuation of the Manila-Acapulco trade but only wanted it to be opened up to more Philippine merchants and goods [Elizalde 2013: 242]. *If* the galleon trade had been a losing proposition, then the desire to open it up to the private sector would not have made sense. And *if* the intent of the suppression was to divert entrepreneurship and capital away from commerce and into domestic production and export, then it was counter-productive to liberalise entry and therefore attract additional players. From this perspective, it must have been the perspective of the Manila commerce that doing away with the monopoly would in fact result in greater, not less, profits from a larger investment in the Pacific route. In this sense, Perez Lecha's conjecture of stable if not rising commerce cannot be discounted. Sharing this view, García Jimeno [2019: 16] contends that "The years between 1814 and 1821 were ones of commercial recovery and expansion,

[100] Pérez Lecha obtains his data from the Archivo General de la Nacion de Mexico (AGNM) and the Biblioteca Nacional de Madrid (Fondo Antiquo). Valdes Lakowsky also used the AGNM while Cheong relied on the Archivo General de Indias in Sevilla. Fish does not indicate her sources.
[101] The figures from Martinez Shaw, Valdes Lekowsky, and Cheong are as cited by Pérez Lucha [2018: 117, Table 3].
[102] Schurz [1985(1929): 21], for example, in the introduction to his classic work writes "The first of the galleons crossed the Pacific in 1565. The last one put into port in 1815."

in which private expeditions participated after the galleon's abolition." Legarda [1999: 96] shares this view, writing that the Manila-Mexico trade post-galleon monopoly "seem[ed] to have begun with a fairly favourable outlook".

A secondary issue pertaining to this period is the proximate reason for the final fall-off in Fil-Mexican trade after 1821. In this regard, the voyage of the frigate *Santa Rita* has attracted historians' interest and some controversy. The broad facts now seem to be that the *Santa Rita* departed Manila in 1819 (or 1818),[103] touched California in 1819 to take on tallow[104] before proceeding to Acapulco and selling its Asian merchandise in Mexico City. On 24 February 1821, however, its sales proceeds, en route from Mexico City to Acapulco,[105] were seized by the erstwhile escort led by Agustin Iturbide, then-commander of the vice-royalist southern army, who justified this act by the need to pay his troops [García 2019]. Iturbide would go on to change sides and become the revolution's leader (and briefly emperor) who would finally obtain Mexican independence.[106]

A number of authors (e.g., Robles [1948], Bernal [1965], and Valdes Lakowsky [1987]) assigned great significance to the Iturbide incident as the pivotal point in the end of Philippines-Mexico trade circuit after the abolition of the galleon monopoly. Legarda [1999: 98] refers to the same incident as the "body blow" that was dealt the Manila-Mexico trade. The hypothesis is that the resulting one-time loss of capital[107] among prominent Manila merchants prevented them further pursuing the Acapulco trade, leading to the "ruin" of the Manila business community [Legarda 2002: 128]. This assessment has however been contested by Perez Lecha [2015: 54] and García Jimeno [2019: 13, fn. 63] among others, who argue in the first place that the amount involved in the Iturbide affair was far less than initially claimed; and second, that the more immediate reason for the fall-off in trade was not any decline in profitability or precipitate actions on the Mexican side but rather the Spanish government's prohibition of trade with the newly independent Mexico and other new American states, enforced in 1822 for Mexico. As Perez Lecha [2015: 58] writes:

> Ultimately, the end of transpacific trade, which occurred with the expeditions that began in 1821, was not due to a lack of interest on the part of shippers and their American buyers. In our view, the cessation of this trade was due to two reasons: first, the prohibition imposed on Spanish subjects throughout the empire from trading with the colonies that were in the processes of obtaining independence; second, the very achievement of the independence of New Spain in 1821 (Mexico), which placed serious impediments to the continuation of this line of trade.

The actions were two-sided however: in refusing to recognise Mexico's independence,[108] the Spanish government prevented its own ships and merchants from treating with its former colonies. But the new

[103] García [2019] uses the date 1818 and also notes some confusion regarding the vessel's name.
[104] California was a major source of animal hides and animal fat. The latter yielded tallow that was used to make soap and candles.
[105] This corrects the misstatement by others that Iturbide seized the actual ship or its actual cargo. Garcia [2019] and Perez Lucha [2014] also determine that the funds were on their way from Mexico City back to Acapulco and not to San Blas. Legarda [2002: 128 and 1999: 99] reproduces the latter error, apparently relying on Paul de Gironière's account.
[106] The Mexican revolution was prolonged and underwent several phases under leaders of differing political persuasions, from the priest Hidalgo, to the progressive Morelos, the liberal Guerrero, and the conservative Iturbide. The latter had the distinction of seeing through the capitulation of Spain. Yet Iturbide was a royalist and opposed to the republican Cadiz government. He shifted his allegiance to the independence movement as a means of resisting the republican trends in Spain. He proposed a monarchy for an independent Mexico and was briefly proclaimed emperor (1822-1823) but was later forced to abdicate and go into foreign exile. Upon his return to Mexico in 1824 he was arrested and executed.
[107] The size of the confiscated amount has also attracted discussion, with quoted figures reaching as high as five million pesos; researchers such as Perez Lucha now peg this amount at a more moderate 525,000 pesos.
[108] The then-viceroy of New Spain J. O'Donoju had already signed the Treaty of Cordoba recognising Mexican independence on 24 August 1821 but this was not ratified by the Cortes and the Spanish position hardened even further with the return of Fernando VII to absolute monarchy following the brief Liberal Triennium (1820-1823). Fernando VII died as late as 1833 without recognising the independence of any of Spain's former colonies. On the other hand the general Mexican ban on Spanish trade and shipping was precipitated by the cannonade on liberated

Mexican government reciprocated in kind. On 8 October 1823 the independent Mexican government prohibited the entry of Spanish ships and Spanish merchandise into their ports, which had already previously been opened to all foreign ships as of 15 December 1821. This measure remained in force until a final peace treaty was signed on 28 December 1836 [Veliz Lizarraga 1953: 23]. What finally extinguished the transpacific route therefore was not the official "suppression" of the galleon trade—that measure merely removed the monopoly of the consulate and the provision of a government subsidy. It was rather the mutual official acts that prohibited dealings between Spain, its remaining colonies, and the new American republics.

This discussion raises the possibility that the trans-Pacific route was not inherently in decline or unprofitable at the time it ended. Rather it was a collateral casualty of the Philippines' political entanglement in the wars between Spain and its erstwhile colonies.

3.3 Consequences of Mexican and South American independence

The effect on Spain itself of the liberation of its former Latin American colonies was a terrific blow, at least in the short run. In particular, the end of metallic inflows from America provoked a severe balance of payments crisis, recession, and a series of further domestic political upheavals. Vicens Vives [1969: 612] asserts that if the metallic flows had continued "for twenty more years", Spain could have recovered more smoothly from its prostration resulting from the Napoleonic wars. As for political repercussions, Vicens Vives states that "it is fair to state that the Carlist war broke out as a result of the American secession" [ibid.].

Finding a deep economic impact in the available data is more complex however. The post-independence period does not show a significant long-term negative impact on Spain. Burkholder and Johnson [2019: 373] surmise that the hit to Spain's GDP from Latin American independence was "probably no more than 2.5 percent". Comin [2020:25] cites Prados de Escosura's estimate that the loss of the colonies cost Spain 6 percent of its GDP. Even Carreras and Tafunell [2021: 14, Table 1.2] find it curious that estimates of Spanish GDP growth show no great difference between an earlier period (1717-1787) and a later one (1787-1850) that includes the wars of Latin American independence: an annual growth rate of 0.6 percent is estimated for both periods. Indeed GDP per capita grew faster in the latter period (0.3 percent annually versus 0.1 percent, respectively). Covering a shorter time span (1820-1870), Maddison [2007: 382, Table A.7] estimates an even higher per capita GDP growth rate of 0.39 percent per annum. Carreras and Tafunell surmise this was because the Spanish modern and tradables sector was itself initially small relative to the rest of the economy, so that the overall impact was not as significant as might be expected. Masking or mitigating the negative effects were two coincident developments. The first was the adoption in the 1830s of modern technology from the first Industrial Revolution (the mechanical loom and steam engine), which led to a resurgence of Catalonia's textile industry [Vicens Vives 2015(1969): 669]. This higher productivity allowed Spain to replace its lost American markets with those of other Europe (even as it continued to maintain its trade monopoly over Cuba and Puerto Rico). A second important development was associated with the liberal agricultural reforms[109] of Spain's post-war governments, notably the introduction of free internal markets for agricultural products, the redistribution (disentailment) of formerly commonly held land, including ecclesiastical properties, and the abolition of church tithes (*diezmo*). All this amounted to an agrarian reform that led to a massive expansion of cultivated area and a rise in agricultural production [Vicens Vives 2015(1969): 644-645]. Such factors lessened the short-term cost to Spain of losing its colonies although it nonetheless lost ground relative to more rapidly progressing European countries in the succeeding decades. The larger significance to Spain of its loss of colonies may have meant a loss of larger opportunities for faster growth.

Veracruz that was perpetrated by Spanish army holdouts on the island-fortress of San Juan Ulloa in September 2023 [Baur 1963: 231].

[109] A notable groundwork for agrarian reform was laid by early liberal thinkers such as Campomanes and Jovellanos, particularly the latter's *Informe sobre la ley agraria* (1795).

By contrast, the post-war impact on Mexico was negative and seems to have been sustained over a longer period. Based on Maddison's [ibid.] figures, Mexico's per capita growth for over a century (1700-1820), had in fact been higher than Spain's (0.28 versus 0.15 percent). Between 1820 and 1870, however, per capita income dropped at an average –0.22 percent annually. More than from any inherent adverse changes in economic opportunities, however, this negative trend was more likely due to the political instability of the post-independence era, not the least of which was the catastrophic U.S. invasion of Mexico (1846-1848) and the resulting loss of more than half of its territory.

For the Philippines the impact of the successful Latin American revolutions, particularly Mexico's, was obvious in the complete cessation of the trans-Pacific route. But this change was not as precipitous as the loss of colonies was for Spain itself. The loss of its American colonies compelled Spain to focus more on its remaining colonies, the Philippines and Cuba (the Antilles) which, Vicens Vives [1969: 212] points out were not insubstantial:

> In 1835 Moreau de Jonnes could still compare the Spanish colonial empire with those of Britain and France. The Philippines were the great marketplace, the open door from Europe to Oriental trade; the Antilles were the center of the sugar and tobacco economy, and further, a strategic place from which to trade with the old Spanish colonial area. Consequently, so long as the Antilles stayed loyal, Spain could count on their wealth as much as on that of the Philippines. But when this situation ended in 1898, Spain found herself restricted to her own efforts.

With the loss of the Americas, Spain's attention to the Philippines would predictably accelerate, especially in the second half of the century with a greater attention to public works, transport, and infrastructure (see, e.g., Costelo [2021] and Cubeiro [2022]). Initially, however to extract immediately greater benefits the Spanish central government focused its attention on the Philippines' potential for agriculture and external trade. *Force majeure* finally compelled the country to abandon the lingering source of Dutch Disease that was the Fil-Mexican Pacific circuit. In the first half of the 19.C., the changes mainly took the form of policy-shifts towards greater liberalisation and openness to foreign merchant activity until by 1834—with the final lapse of the privileges of the RCF—Manila was opened to all foreign shipping that would serve as vent for the country's exports to various destinations and sources of imports from all countries.

Indeed reflecting internal developments Philippine commerce had already begun to diversify well before Mexico finally achieved independence. This can be seen in the structure of exports from Manila as of 1818 (**Table 5.**) provided by García Jimeno [2017:188], which shows the surprising predominance of "country goods", consisting of indigo, cotton, sugar, dyes, etc. At that point, the carrying trade with the Americas made up only some 40 percent of total exports. This would seem to modify the general supposition that the diversification of Philippine trade occurred only after and as a consequence of the end of the trans-Pacific route.

Table 5. Composition of exports from the port of Manila (1818) in percent

Exported to	Mexico (Acapulco)	US	Europe	India	China	Others	Total
Chinese and other Asian goods	39.0	--	--	--			39
Country-goods	4.4	10.4	15.9	15.0	11.6	3.7	61

Source: García Jimeno [2017: 188, Table 2]

This pattern may be contrasted with the data for 1810 provided by Mas and cited by Azcárraga [1871: 152], showing exports of Philippine products amounting to 525,000 pesos and reexports of Chinese and Indian goods amounting to 1.63 million. Excluding silver flows, therefore, local products in 1810 constituted only 24 percent of exports, while reexports of Asian goods still made up a hefty 76 percent—a remarkable change in pattern that appears to have occurred in the course of less than a decade.[110] As [Legarda 1999: 106], surmised, "The qualitative transformation from an entrepôt to a domestically based

[110] The link between trade performance and national income is less straightforward and can be contentious. Castro [1982] attempts to relate the two by (heroically) using the growth rate of exports or imports as proxies for income growth.

trade had been completed by 1830 and perhaps even as early as 1825." Larkin [1992: 24] also dates the sharp rise in sugar exports to second half of the 1820s and attributes it to the end of the Napoleonic wars and growing demand from the U.S. and Britain. The U.S. sought new sources of supply after the British West Indies were closed to them following the War of 1812.

3.4 The role of foreign merchant companies

The paucity of data for the turbulent early 19.C prevents one from documenting exactly how the trade pattern came to be established where exports of country products came to be established. What is almost certain however is that the agents for this shift were non-Spanish (predominantly British and U.S) trading firms or agents. Azcárraga [1871: 151] writes that "…foreign traders are almost wholly responsible for exports, an activity that national [i.e., Spanish] merchants have been unable to seize upon despite all the prior prohibitions and the flag differential duty".

It will be recalled that the first (albeit unidentified) British merchant firm had already been allowed to establish itself in Manila as an exceptional concession as early as 1809. But foreign merchant interests had already been able to maintain trading relations through resident local agents even before they had established permanent offices and (by flying false flags) even when Manila was closed to foreign ships. As described in **Box 4**., the role of the RCF here was highly instrumental in regularising the participation of private British and other merchant houses in the Manila-India and Canton trade. These included contracts with the East India Company itself (albeit surreptitiously) and smaller firms such as Graham and Mawbray (Calcutta); Duncan and Fairlie (Calcutta); Fairlie, Reid, and Gilmore (Calcutta); Coulon and Co. (a French company at Pondicherry).

Manila at first served as a convenient stopover ("a way station" [Legarda 1999: 236]) for foreign vessels engaged in the more lucrative Guangzhou or Bengal trade, with local goods serving only as incidental cargo. If, say, a full cargo of tea or silk could not be had from China, then an American ship might call on Manila to purchase abaca or sugar to make up the difference before sailing on to Boston. Several short runs between Manila and Guangzhou were also possible to take advantage of small trading opportunities (e.g., rice or *kamagong* occasionally shipped to China for sale by cash or barter for Chinese goods) before a final voyage home. With Manila's opening since 1789 to the arrival of foreign ships bringing Asian (and surreptitiously European) goods, however, a larger market was opened for domestic products to be carried as regular cargo for foreign ships on their return voyages. The precondition for the rise of the home exports is the existence of a regular assortment of goods available for purchase in the port of Manila. This appears to have been the case: Legarda [1999: 237] quotes an American captain calling on Manila in 1802-1803 who "found the place glutted with every kind of goods" and crowded with vessels of varying nationalities.

Table 5. Some merchant companies set up in Manila with founding dates

Founding date	Firm name	Nationality	Est. in Manila
1820	J&T Apthorp	U.S.	
	Kierulf and Co.	Danish	
1822	Peele, Hubbell, and Co.	U.S.	
1826	Wise and Co.	British	1841*
	Paterson and Co.**	British	
1827	Ker, McMicking, and Co.	British	
1828	Russell and Sturgis	U.S.	

Source: Legarda [1999:242];
*See this NHCP link; **a.k.a. Paterson, Simons, and Co.

In a further step towards a liberal policy, the country's ports were declared open to all foreign flags in 1818. Foreign (non-Spanish) business houses were also allowed to establish resident trading houses ("factories") in Manila conditional on case-by-case approval by the governor-general. **Table 5.** reproduces the firms enumerated by Legarda [1999: 242] and includes firms formed during the decade of the 1820s. The dates do not necessarily coincide with the first year of their presence in Manila, however, and the list is likely incomplete, since Legarda quotes the British merchant John Wise (of Wise and Co.) who stated that as of 1827 there were *nine* foreign firms operating in Manila. In 1830, a further opening up of all Philippine ports to all nations, along with permissions for the establishments of merchant houses under the governor Pascual Enrile, but the number and names of merchant houses operating after that date are not readily available.

In terms of trade taxes, the situation prior to 1830 was dominated by the *almojarifazgo.*, which had not been changed since the late 17.C. These were as given in **Table 6**.

Table 6. Export and import duties prior to 1830 (in percent)

Exports to	Spain or New Spain	China	All others
of Asian goods	10	n/a	n/a
of all other goods	3	3	3
Imports from	Spain or New Spain	China	All others
	15	6	3

Source: Plehn [1902: 125-126].

The opening of Manila in 1834 to foreign merchants meant the application of new trade duties following Spain's adoption of a general code of commerce in 1825. This new system of rates distinguished goods according to kind and origin as well as the nationality of the vessels on which they were carried, with a flag differential in favour of Spanish bottoms (**Table 7**). The purposes of the system as stated in a royal order of 6 April 1828 were: (a) to raise revenue; (b) to protect Philippine agriculture and industry; and (c) to expand both national and foreign commerce [Plehn 1902: 129].

Table 7. Export and import duties after 1830 (in percent)

Exports to	Spain and its possessions		Third countries	
of national products	1	2	1½	3
of abaca	1½	2	1½	2
of tobacco	0	0	0	0
of rice	0	4½	0	4½
of silver coin	0	0	8	8
of gold coin	0	0	3	3

Imports from	Spain and its possessions		Third countries	
of most products	3	8	7	14
of distilled spirits	10	25	30	60
of olive oil, olives, Chinese garlic, footwear and garments			40	50
of agricultural machinery and inputs	0	0	0	0

Source: Azcarraga [1871: 151-152] and Plehn [1902: 129-130].

N.B. Shaded cells are applicable rates (a flag differential) when goods are shipped on non-Spanish carriers

A comparison of **Tables 6.** and **7**. shows a continuing mercantilist bias. Imports from third countries, for example, used to be subject to a uniform three percent rate prior to 1830 but became subject to 7-14 percent (with the flag differential) under the new schedule. Imports from Spain, which used to be subject to a 15 percent tariff were levied a lower 3-8 percent (again with the flag differential) under the new schedule. On the other hand, all export taxes were lowered, reflecting the continuing Colbertist bias for export-promotion. Along the same lines, an important detail to be mentioned is the tariff exemption for all agricultural machinery and inputs. The prominence of the flag differential favouring the Spanish merchant fleet was a feature similar to that found in Spain's own 1825 schedule, which was frankly even more protectionist owing to import bans imposed on 657 banned products to protect domestic industries. (By contrast no quantitative import restrictions existed in the Philippines' colonial trade regime.) Despite the protectionist bent of higher trade taxes in the new schedule, the more significant measure for the Philippines was the opening of Manila to trade with all countries, so that the overall movement can be regarded as one of continuing trade liberalisation, indeed a liberal trend more pronounced than in Spain itself.

The various steps in the liberalisation of Manila with respect to other flags—1785, 1787, 1789, 1818, 1830, until the universal opening in 1834—taken together with the revision of trade taxes and the opening of regional ports might appear to be progressive steps in a single coherent plan of liberalisation, but that would be a misimpression. The concessions of 1785, 1787, and 1789 were undertaken in the context of a mercantilist general policy, whose objective was to help the monopolies of the consulate and the company by lowering the costs of Asian goods arriving in Manila for transhipment. The motives for the liberalisations from 1818 onward, on the other hand, were different. At that point Spain appears to have abandoned the idea that privileging commerce within Spain's sphere of influence would be the key to future Philippine development. The metropolis implicitly gave up on its efforts to produce a classic colonial relationship between Spain and the Philippines, one that would have entailed the export of raw and natural commodities in exchange for finished goods (a pattern Spain had managed to institute between itself and its now-lost American colonies). Legarda [1999: 100-101] cites reasons for this failure of the attempt to put Spanish-Philippine trade at the centre of Philippine development: (a) the insecurity of navigation in the South Atlantic; (b) Spain's weakness relative to more advanced economies in providing a market for Philippine exports and source of imports; and (c) the civil turmoil in Spain brought on by the intermittent Carlist Wars (throughout the period 1833-1876).[111] It could be fairly said that the first and third were actually consequences of the second, i.e., Spain's industrial backwardness. Indeed, as much was alluded to in Mas's confidential report of 1842, which supported his opinion that Spain would be better off letting go of the Philippines. Among other reasons,[112] Mas thought the Philippines was "useless" as a market for Spain's manufactures, "*for we ourselves have no manufactures to export*"[emphasis supplied].

In the light of Spain's infirmities as a colonial power, the role of transforming the Philippine economy was opened—if not practically ceded—to other European powers, especially the rising industrial powers Britain and the US. This idea was embodied in the opening of Manila in 1834 to all foreign shipping and to the activities of merchant houses that henceforth came to participate in a massive way in Philippine economy.

Beyond the opening of Manila to all flags, further penetration of the economy by foreign merchants was encouraged in 1855 when the regional ports of Sual, Iloilo, and Zamboanga, were opened to international shipping along with the establishment of customs houses. Cebu—long neglected in favour of Manila—was also opened not long after in 1860. The opening of regional ports was an attempt to lower transport costs, since it would allow international carriers to directly reach areas of production, bypassing Manila, as well supplying imports to the regions.

The idea that foreign trade can serve as an engine of internal development may be seen in operation—though at a somewhat later date—in the development of sugarcane cultivation and processing in Negros in the 1850s. McCoy [1982] points out that the British consul Nicolas Loney's well-publicised effort to promote the sugar industry on underdeveloped Negros was actually inspired by the opportunity he saw to afford a return cargo for British vessels that were calling on Iloilo to bring in imported Indian and British textiles—which not coincidentally also caused the ruin of Iloilo's native textile industry. The trend was further encouraged by a rise in world sugar prices from the late 1850s as the British prohibited slavery and the disruption of supplies owing to the Crimean War and the U.S. Civil War [Larkin 1992: 51]. The

[111] With the death of Fernando VII, a struggle for the Spanish throne erupted between supporters of the claims of his daughter Isabela, for whom his widow Maria Cristina served as regent, and supporters of Fernando's brother Carlos de Borbon. In political terms, Isabela's supporters (*Isabelinos* or *Cristinos*) were liberals who favoured a limited monarchy, while the *Carlistas* favoured an autocratic monarchy. Spaniards in the Philippines, under the influence a frailocracy and despite the succession of liberal governments in Spain proper, were staunch supporters of Carlism (see Sarkisyanz [1995: 82ff]).

[112] Mas [1907(1842): 88] also argued that the Philippines was too poor to be generate revenues through more severe taxation as the Dutch implemented in Indonesia. Nor, he said, could it serve as an area of resettlement, as the British did in Australia, since Spain itself was depopulated.

result was a decisive case of resource allocation from one economic sector to another with all the polar results of wealth accumulation and impoverishment that implies for a society without safety nets or mechanisms for Kaldorian compensation. As will be discussed further below, the consequences of trade opening for income distribution among factors of production follow in almost textbook fashion what trade theory predicts, notably the Stolper-Samuelson [1941] results. The point remains, however, that the development of the industry hinged upon the existence of a ready outlet.[113]

The opening of the Philippines to foreign trade and business from 1834—when liberalism triumphed in Spain itself—mirrored the policy that prevailed in Spain, especially during what Vicens Vives [1969: 614] calls "the great moderate phase"[114] (1842-1868), when various central governments maintained a generally open attitude to foreign direct investments, particularly from Britain and France. Foreign capital first entered Spain through the financing of government deficits, but from 1850 to 1890, foreign capital became important in railways, mining, banking, electricity and supply, general public works, and chemicals. Prados de la Escosura estimates that foreign capital made up some 37 percent of total investment in Spain in 1850-1876, reaching as high as half in the shorter period 1858-1866. [quoted by Carreras and Tafunell 2021:71] and coming mostly from France, Britain, and Belgium. The prominent role of foreign capital in Spain has been attributed to various factors, including the country's lack of capital, the disruption brought by the Napoleonic Wars and War of Independence, the loss of its colonies, well as the lack of entrepreneurial ability among the Spaniards [Tortella 2003: 402]. On the other side of things, Spain's lack of industry coincided with a period when the leading European industrial countries and the U.S.—buoyed by the Industrial Revolution—were running surpluses in trade and payments that were in search of investment opportunities. Such conditions undoubtedly played a similar role in the expansion of foreign merchant interests in the Philippines.

Finally, the trend towards liberalisation was also encouraged by an almost universal gravitation towards free trade ideas—and ultimately free trade practice—in the major European countries, beginning with the 1846 British example of the repeal the Corn Laws and culminating in the Cobden-Chevalier treaty (1860), which was emulated in other bilateral treaties.[115] The period 1850-1870 was known was the first "golden age" of free trade. As Kindleberger [1975] put it, while the immediate circumstances and reasons for the shift in policy differed by country, the response was remarkably the same almost everywhere:

> [T]he countries of Europe in this period should not be considered as independent economies whose reactions to various phenomena can properly be compared, but rather as a single entity which moved to free trade *for ideological or perhaps better doctrinal reasons*. Manchester and the English political economists persuaded Britain, which persuaded Europe by precept and example. [Kindleberger 1975: 51]. (Emphasis supplied.)

In Spain itself, this trend was echoed when the intellectual tide began to turn from protectionism to free trade from around 1850.[116] It was embodied in the formation in 1856 of the Sociedad Libre de Economia Politica as a lobby group espousing free-trade ideas [Almenar and Llombart 2001: 115]. The society's membership included academics like Laureano Figuerola, Segismundo Moret, Gabriel Rodriguez, and others, who would later make careers as public officials espousing liberal commercial policies. In the Philippines, the ideas of these writers were well-known and widely cited in discussions of commercial policy, notably the issue of whether Manila should remain the only port open to international trade [Azcárraga 1871: 174]. Figuerola in particular would be installed as finance minister (1869-1870) after the

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113 Myint's term "vent for surplus" is suggestive but has come in for criticism in recent Adam-Smith scholarship (e.g., especially Schumacher [2015]), since it gives the impression that a surplus output can exist before a market has become available. More realistically, of course, markets first exist to which output subsequently responds, so there is no "surplus" to speak of. On Azcárraga's ideas on this matter, see de Dios [2022].

114 Vicens Vices extends his periodisation beyond what is normally called *la decada moderada*, 1844-1854, during which the Moderate Party was in power.

115 Notable were the subsequent bilateral treaties negotiated between France and Germany (1862), Italy (1863), Switzerland (1864), and Belgium (1865). While bilateral in nature, the application of the most-favoured-nation principle meant that trade concessions to partners would also apply to third countries, this creating a "network".

116 A strong impulse was Cobden's famous 1846 tour of the continent including Spain in order to promote free-trade ideas.

1868 Revolution (*La Gloriosa*) that overthrew Isabela II and would implement a programme of liberal economic policies including tariff reductions and the lifting of import bans. Moret would serve briefly as minister of the treasury overseas under Amadeo I and would be more important for the Philippines as minister of overseas (1870-1872), when in 1870 he sought to introduce secular education and convert the University of Santo Tomas into a state university.

3.5 The supply chain

Meanwhile on the ground and on the supply side, the practice of cash-crop cultivation had already taken hold in the Philippines since at least the mid-1700s. This was based on the sporadic efforts of private entrepreneurs like Francisco Salgado (cinnamon, indigo, copper mining); visionary officials like the governor Jose Basco and the Royal Economic Society he sponsored (flax, hemp, pepper, mulberry, indigo, areca, palm wine, and of course tobacco); and the RCF itself (indigo, sugar, pepper, cotton, cinnamon, and silk) [Legarda 1999: 62-83]. It is worth noting however that for the most part, these efforts ultimately proved abortive. Nor did they always entail foreign trade as objective. They nonetheless set in motion a restructuring of the Philippines' internal economy that ultimately served to shape a more diversified pattern of trade and production. A clear example is provided by the tobacco monopoly (est. 1782). A rare instance of an enterprise successful on its own terms, its primary purpose was not exports but raising government revenues from the monopoly pricing of domestic tobacco consumption. At least in its early years, therefore, its impact on foreign trade was nil or negligible. Nonetheless the designation of certain regions (initially in Bulacan and Nueva Ecija, and later Cagayan Valley[117]) as exclusively tobacco- producing eroded the self-sufficiency of these areas, forcing them into a cash economy and turning these into food-deficit areas. Independently of the stimulus from external trade, this resulted in the endogenous specialisation in rice by other regions to supply rice-deficient areas involved in the monocrop. In an instance of what Joel Mokyr calls Smithian growth, the resulting regional specialisation or division of labour raised productivity in both rice and tobacco.[118] (Higher productivity from specialisation is likely one reason that rice itself was more or less regularly exported to China until the 1870s, when factor-proportions finally asserted themselves.[119]) These incipient trends of regional specialisation were only accelerated by the powerful stimulus coming from foreign demand. The expansion of sugar cultivation in Negros in the 1850s is an example of the latter. Such trends ultimately resulted in a geography characterised by strikingly distinct agricultural "landscapes" (rice, tobacco, abaca, coconut, sugarcane, etc.), which the German geographer Albert Kolb [1941] observed as late as the 1930s and which persisted well after the Second World War.

The business practices of the foreign merchant houses emulated those of the RCF. Like the latter, foreign merchant houses relied on making loan advances to local agents, typically Spanish or mestizo interests with networks among small-holding native peasants, in exchange for buying output in advance. Once again, notwithstanding the RCF's failure and bankruptcy, its example provided a template that better-

[117] Cagayan originally grew some commercial tobacco in a small-scale nonspecialized way. Under the monopoly however it was arbitrarily designated initially as a *marketing area* in 1785. This meant a prohibition of traditional tobacco cultivation, a circumstance that provoked social unrest and outmigration. As a consequence, the colonial government later (1797) came to designate Cagayan as a specialized tobacco-*production* area (*colección*). In this role it surpassed Nueva Ecija and Bulacan in output [de Jesus 1982].

[118] Suppose each of two farmers disposes of a units of labour, devoting a fraction h (respectively, a fraction g) of labour to rice, devoting the rest to tobacco. Both rice and tobacco are produced under increasing returns to scale following the production functions $r = a^B$ and $t = a^C$, respectively, with $B, C > 1$. Without specialization, total outputs of rice and tobacco by the two farmers are $r_0 = (ha)^B + (ga)^B$ and $t_0 = ((1-h)a)^C + ((1-g)a)^C$, or simply $r_0 = (h^B + g^B)a^B$. and $t_0 = [(1-h)^C + (1-g)^C]a^C$. With specialisation, on the other hand one farmer produces only rice and the other only tobacco, so total outputs are $r_1 = a^B$ and $t_1 = a^C$. Inspection shows that $r_1 > r_0$ and $t_1 > t_0$.

[119] Roughly speaking, factor proportions—with world prices favouring land-intensive export crops over labour-intensive food crops and domestic industries like textiles—should typically result in a reduction (resp., an augmentation) of land and labour devoted to the latter (resp., the former). Hence a contraction of the labour-intensive goods, in this case rice, is to be expected. In a more dynamic setting, Rybczynski's result predicts that an expansion of the factor used intensively in the export good (in this case land, given the expansion of cultivated area) will result in an absolute expansion of the output of that good and an absolute contraction in the output of the importable. This seems to capture the analytical gist of Legarda's [1999: 165-166] argument and narrative.

capitalised and more qualified agents could adopt with success. Using the abaca industry as an example, Legarda [1999: 282] describes the successive layers involved in the operation. Merchant houses would remit funds to their agents in the provinces, who then cascaded the funds to their sub-agents (*personeros*) or even sub-sub-agents—until the loans finally reached the direct producers, who in most cases were small landholders. Direct loans to growers could also be made. In both cases, the advances or loans would be discharged fully or in part by the delivery of the contracted output—understood as already being owned by the lender—at pre-agreed prices. Interest on the loan or advance was implicitly incorporated in the differential in prices between what the buyer paid the grower and what the former expected to obtain in the open market. Frequently, however, the resulting output would not be enough to liquidate the advances and an outstanding balance would then have to be carried over to the next period, in addition to new advances.

This situation leads to repeated transactions that are relational and abiding rather than one-off and arm's-length. Legarda [1999: 280] sees the economic benefits to the merchant firms of the system of advances as "the control of supply and the forestalling of competition". As the same time he notes from the "cultural point of view" the consequences of the resulting relationship and its deviation from the formal-institutional version of credit and loan-making:

> It created a patron-client network emphasizing continuity, with debts never completely fulfilled. This was alien to the western concept of contracts as separate and complete individual transactions with well-defined quantitative and time limits. The cultural advantages to the recipient were security and recognized creditworthiness and to the grantor prestige and influence. Legarda [1999: 282]

An important insight this overlooks, however, is that such idiosyncratic "cultural" features were not incidental consequences but the very means to accomplish economic objectives. In the system described, lender and borrower find themselves bound in mutual dependence. On the one hand, the lender-buyer is always vulnerable to partial delivery, or even non-delivery by the borrower; a defaulting borrower, on the other hand, risked being cut off from further advances and thus lose the discounted value of future transactions. A Folk Theorem in the theory of repeated games argues that adhering (on best efforts) to the loan commitment is a dominant strategy for the borrower, while continuing to make the advances is a dominant strategy for the lender. Hence the system is built on a continuing relationship with repeated transactions. The system Legarda describes is a remarkable precursor of the interlinked credit-output markets that a later literature would analyse almost two centuries later (see, e.g., the surveys by Bell [1988] and Hoff and Stiglitz [1990]; some Philippine literature comes from Esguerra [1993], Fabella [1992], Teh [1994], and Floro and Yotopoulos [1991].) That literature essentially views the credit-tying mechanism observed in the 20.C as a means to address problems of both moral hazard and adverse selection. As already argued, the repeated nature of the transaction and the risk of being cut off from future opportunities serves as the incentive for the borrower to fulfil the contract. In addition, tying loans to output-delivery also screens for borrowers (e.g., those with access to land and work-animals) who are *prima facie* more likely to fulfil the loan contract. None of this precludes either the lander or the borrower getting the larger benefit of the surplus from the bargain, a fact that depends on the relative bargaining power of each party.

A subsidiary question is why the foreign merchant houses, largely adopting the same methods of advances to growers, seemed to succeed where the RCF had failed. Legarda makes the persuasive argument that attributes the difference to the availability of finance: foreign merchant houses, creatures of the most advanced capitalist countries of the time, simply had a greater access to capital that the RCF did not have. The RCF as a corporation was limited by its own equity as well as any limited credit it could raise. It was indeed initially undercapitalized, since its equity was not even fully subscribed. In comparison, the merchant companies had access to the world's great financial centres, notably London, and in addition also functioned as banks in the Philippines. The RCF's failed initial ventures will not have inspired confidence in outside creditors to extend it further credit.

This cannot be the entire picture, however, since the merchant companies effecrtively functioning as banks also accessed a good amount of their capital from the local economy. The well-to-do of Manila willingly entrusted their finances to the foreign merchants where in the past they withheld these from the

RCF. This suggests that, similar to the situation prevailing in Spain at the time, “the flowing of foreign capital into Spain was due more to a lack of initiative and technology than a lack of capital” [Tortella 2003: 401].

3.6 Colonial models: the Philippine hybrid

To explain the widespread yet shallow penetration of foreign capital in the direct organization of production in the 19.C, Legarda ([2012]; [1999: 288-289] measures the Philippines against two models of colonization that he termed “East Asian” and “Southeast Asian”, respectively. The former involved a classic pattern, where a Western metropole exercised both economic domination *and* political sovereignty over a colony. Where the colonizing power has the power to define legal institutions, property rights can be closely configured to the needs of metropolitan foreign capital. Then it will not be strange to see the emergence of large monocrop plantations under unified ownership and management and the mobilization of a large collective labour force (under slavery or conditions approaching it). The system developed by the British in Malaysia, Sri Lanka, and India, or the Dutch in Indonesia would be illustrative—and examples that Azcárraga incidentally admired. The result is a rapid development of the commercial economy, particularly export agriculture and mining, though often accompanied by the immiserisation of large sections of the population given the disruption of the traditional economy and the unequal distribution of returns from the new commercial activities.

On the other hand, China and Japan represent the other branch of Legarda’s dichotomy, according to which, countries that retain their sovereignty but are compelled through military force or other means to accept and tolerate Western intrusion would find means to raise obstacles against it. Traditional economic institutions will then tend to persist, and it is Western commercial practice that must adapt. Commercial development would be slower and weaker, since political power to configure rights over property and labour does not reside in the dominant Western commercial powers. In such circumstances, “the economic penetration was much shallower and the chief agent of foreign enterprise was the merchant house” [Legarda 2012: 42]. This system can be observed in the manner the British dealt with China under the Canton system: permanent trading presence was restricted to designated areas and foreigners were prevented from venturing into the interior. Foreign capital exercised no direct influence over the organization of production, which continued to be dominated by small-peasant agriculture.

The Philippines was a hybrid between these two poles, owing to the fact that Spain exercised political sovereignty but not economic dominance over the country. The economy was instead in the hands of the British and Americans (and the Chinese who controlled internal trade). On the one hand, as in China and Japan, foreign merchant houses dominated trade without rights over land or labour. This explains the institutional adaptation of credit-output interlinkage described earlier, which promoted a long-term relationship even as it preserved the small peasant economy. On the other hand, since Spanish economic institutions were not entirely different from those of other Western nations, the rise of larger production units owned by Spaniards, mestizos, or friar orders was also not unknown. Larkin’s [1992] work describing the different but co-existing systems of sugar cultivation reinforces Legarda’s point. In Pampanga, sugar farming was based on the contracts with independent peasant or share-tenant production; meanwhile in Negros it was based on large-scale plantations (*haciendas*) worked by wage-workers. The reasons for this differential development as discussed further below.

The delay and limited appearance of large agricultural estates seems to have been due several factors: first, the lack of capital among those who had rights to expand their holdings, i.e., the Spaniards, mestizos, and natives, as well as the diversion of attention to the galleon trade. A second factor was institutional in nature: Western merchants and mainland Chinese, who were better endowed with capital neither possessed the rights nor were inclined to subsume themselves to a system of property and law over which they had little influence. In the first place, non-Spanish foreigners (i.e., other westerners as well as the full-blooded Chinese) were generally prohibited from owning real property.[120] This fact alone discouraged the

[120] The regalian doctrine Spain followed meant that all land was owned by the king, and access to the land could only be obtained by royal grant, which was generally inaccessible to foreigners. Legarda [1999: 279-280] curiously finds this institutional reasoning “not completely satisfactory” and instead prefers to explain the advances system as

possibility of securing loans through land mortgages, since foreigners would be prohibited from taking possession of mortgaged property in the event of default. (The private purchase and titling of public lands were allowed only from about 1880.)[121] Legarda [1999: 279] however would rather cite the more proximate reason that foreigners were generally could not easily settle outside Manila, and therefore confronted difficulties in dealing with land and labour issues. Azcárraga [1872: 145] also noted the legal protection given to natives under the Laws of the Indies that did not make them liable for loans amounting to more than five pesos. (Legarda [1999: 279] however cites the limit of 25 pesos.) This of course was a further example of failure of support from formal institutions that hindered the flow of more normal types of credit to growers (e.g., longer-term production loans rather than advances tied to seasonal output). All in all, therefore, such institutional restraints prevented a provision of conventional credit to direct producers. This however meant that a crucial intermediary role would have to be played by that stratum of *peninsulares*, creoles, mestizos, and natives (also not to forget the friar orders) that had more direct interaction with the native labour force and were allowed to own property.[122] Legarda [1999: 215] underscores this consequence of the rise of the export economy. This middle class would subsequently constitute the seedbed of the movement for reform and ultimately revolution.

True to its hybrid position as a colonial model, however, even as land became more valuable due to trade, large-scale landholdings in the Philippines never quite became the general rule under Spanish rule (at least until 1870)—they probably became prominent only under U.S. occupation). Instead, small landholdings continued to predominate.

> The preponderant testimony is that, in the period under consideration, the Philippines was largely a land of smallholders. There were some large properties…in the form of endowments to religious and charitable corporations, and there was also a tendency for Chinese mestizos to accumulate landed property in the course of their financial and trading operations through *pactos de retroventa*…While these two factors may have contributed to sporadic popular discontent (sic)…they were not enough to destroy the country's character of individual small ownership. [Legarda 1999: 184]

Legarda further observes that, regardless of the size of land owned, what was more significant was that *operations* were small scale. Indeed, even as *pactos de retroventa* allowed the private accumulation of land by the local elite, the operation of these lands mostly remained in the hands of their former owners-operators, even pre-existing large haciendas owned by the friar corporations were run through sharecropping. In Cushner's [1976: 48-49] enumeration of classes of labour in landed estates, the category that most closely exemplifies this phenomenon is his description of *inquilinos* and *indios de la estancia*, neither of whom owned the land but worked larger or smaller plots in exchange for paid rent or labour-services. Cushner however studied a period before the great expansion of foreign trade and commercial agriculture and his conclusion need not have applied to the entire archipelago. Even he freely admitted that for the areas he covered (Tondo, Laguna, Cavita) at the end of the 18.C "the Tagalog native peasantry constituted the largest individual farming group" independently farming small individual holdings. A later period would see a further evolution where inquilinos themselves oversaw subtenants. The circumstances of Rizal's family incidentally validate this description. The Mercados (who were Chinese mestizos by extraction) were among several large inquilinos on the vast Hacienda de Calamba

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means of "control of supply and forestalling of competition". This "explanation" however neglects to state why *alternative institutions* did not arise that might have perhaps afforded the same or even better means effecting control, such as, for example, direct involvement in production through plantation agriculture. In fact, Legarda's own typology of the "East Asian" colonial model provides the very same answer, namely, that the institutional support for more conventional formal contracts (e.g., standard term-loans secured by mortgages, wage-labour contracts, etc.) were unavailable to third-country foreigners.

[121] The Royal Decrees of 25 June 1880 and of 19 January 1883 allowed private persons to apply for ownership of public (i.e., royal) lands (*realengos*), apart from those already granted in the past by the government. The full texts of these decrees can be found in Rodriguez Berriz [1886: 12ff nd 59ff].

[122] The situation where the domestic elite plays the indispensable role of intermediary between the working masses and foreign capital is the template for what the dominant Left in the Philippines has called "comprador capitalism". The concept, however, originates from Chinese Marxist literature (e.g., Mao [1926]), which viewed the role of Chinese merchants (e.g., the *hong* merchants in the Canton system) as backward "appendages of the international bourgeoisie". For this reason, unlike the European bourgeoisie of Marx's time, communists did not expect these to support, much less lead, social and economic transformation.

owned by the Dominican order, for which they paid a fixed rent. But they themselves only functioned as intermediate landlords to small farmers who related to them as sharecroppers. Only large tenants like the Mercados were contractually recognised by the landowners; smallholders had no legal personality. The implicit structure of production relationships is revealed by the result of the *Audiencia*'s 1890 decision in the dispute between *inquilinos* (the Mercados and Eisaganis) and the Dominicans. When the judgement went against the plaintiffs and led to their eviction,[123] along with them some 300 sharecropping families that they contracted and managed were also ordered expelled [Donesa 2009], thus implicitly revealing how small cultivators operated even on large landed estates.

Box 6. Some trade theory

Familiar trade-theoretic arguments allow some developments described to be elucidated in general terms. One of these is the differential in factor returns and reallocation of resources that result from opening a country to trade (i.e., the Stolper-Samuelson [1941] result).*

The Philippines in the 19.C might be roughly characterised as a land-abundant, labour-scarce economy. When such an economy is opened to trade and comparative advantage is found to lie with the land-intensive goods for which world prices are higher than in autarky (e.g., sugar, tobacco, abaca), these goods become exportable and their production increases. As production shifts towards exportables, more land rather than labour is required for the new output mix, which raises the rental value of land and conversely lowers the labour's wages.* Such an analytic scheme roughly corresponds to the historical record, the most vivid being the development of the sugar industry on Negros Island [Larkin 1992], or the reallocation of resources described by Legarda [1999: 164-173] from rice and textiles to abaca and sugar.

A modification is introduced by the suggestion in the text that wages were actually rigid to the extent that small-holder agriculture was always a fall-back that allowed farmers at least a subsistence wage. What this implies formally is that the fall in predicted wages cannot be completed so that the movement of labour to the expanding sector can only be partial. The economy then operates *off* the production contract curve and below its production-possibilities (see Appendix), although an improvement in the output valued at world prices is still possible. The incompleteness of the transition is consistent with the argument in the text regarding the barriers to the spread of large-scale plantations agriculture.

*A corollary is that *both* sectors are induced to use more labour-intensive methods owing to the fall in wages.

The preponderance of small agriculture and conversely the limited development of large-scale plantations was a frequent observation—and a cause for envious lament—by outside visitors and Azcárraga himself, who compared the country unfavourably to British and Dutch colonies, and even Cuba, for lacking such establishments. We already cited one contributing factor, namely the fact that non-Spanish foreigners who likely had the greatest interest in and wherewithal to finance large plantations were institutionally barred from land-ownership. Given their limited capital, on the other hand, Spaniards, mestizos, and the *principalia* would have found it unduly risky and costly to run large-scale establishments based on straightforward wage-relations.[124] In contrast, sharecropping arrangements proved more viable and attractive, since (as incentive theory suggests) such a mechanism allowed the principal (whether landowner or *inquilino*) to share risks and costs with the tenant.[125]

A second reason is that the prevalence of small landownership prevented a ready labour force from emerging to supply requirements of larger establishments. Recall that the expansion of exportables

[123] This episode was a catastrophic loss for Rizal's family and a source of his radical disillusionment, which he would write about in *El filibusterismo*.
[124] In the principal-agent literature, wage relations entail the owner shouldering the entire risk as well as the responsibility for monitoring and directing the workers' entire effort.
[125] Share tenancy was the subject of an extensive literature in the latter part of the 20.C dating from Cheung's [1970] work. Some useful surveys are Newbery and Stiglitz [1975] and Otsuka and Hayami [1988]. A common theme in explaining the existence of sharecropping contracts is their function in the optimal distribution of risk-bearing, as well as in providing work incentives.

depends on the reallocation of labour coming from the non- or less tradable industry. This cannot fully materialise, however, if wages are inflexible (see **Box 6.**). But inflexibility is precisely what results from small-holding agriculture, which sets an implicit floor-wage based on the farmer's ability to grow his own subsistence. In many areas of the country, peasants operated small parcels that were theirs by tradition.

The Negros sugar haciendas operated using wage-labour were an obvious exception to this characterisation. But how did large wage-based plantations emerge in Negros while sugarcane farming continued to be based on share tenancy in Pampanga? In comparing initial conditions in the country's two major sugar-producing areas Larkin [1992: 85] suggests some factors that may have been at work.

> Perhaps general unavailability of large tracts, save in the western section, and a tight hold on property by indigenous landowners discouraged European investment in Pampanga; or maybe difficulty in obtaining labor prevented foreign entree to sugar farming.

Larkin [1992: 83] also describes Pampanga as "a much more settled region, already well populated with more settled villages" and notes that despite the expansion in sugar cultivation, Pampanga maintained "a strong local economy" based on rice and other foodstuffs, as well as crafts supplied to domestic markets, which were less vulnerable to import competition. Sugar cultivation was pursued alongside and not in lieu of these older activities.

By contrast, the expansion of sugar in Negros—a relatively late development from around 1845—was directly related to the precipitous decline of Iloilo's native textile industry following the entry of imported textiles [Larkin 1992: 61]. This development both refocused entrepreneurial interest and released workers from the shrinking industry in favour of the plantations being formed on the sparsely occupied Negros island. Migration from poorer areas also later augmented the labour force, a Stolper-Samuelson mechanism. The fact that sugar cultivation in Negros did not involve already-settled land but was based on the clearing of new areas (Larkin talks of the "peopling and exploitation of the western Negros wilderness") is another important difference between it and Pampanga. These circumstances bolster the hypothesis that large plantations based on wage-labour were unlikely to become the rule where a pre-existing settled smallholding peasantry could always devote itself to producing a subsistence minimum. The Negros phenomenon was the exception that proved the rule, i.e., where a labour force exists that is not (or no longer) tied to the land and can therefore be mobilised; where there is no recourse by the labour force to subsistence farming; and where the new activity expands into areas not previously occupied by smallholders—then large plantations based on wage-relations can indeed prove viable. This is especially so when large capital is made available, e.g., in this case through financing by merchant capital. Again in contrast, Pampanga landowners could only expand their holdings slowly because of their limited capital, relying on their own funds using *pactos de retroventa* (usually without displacing tenant-operators) and leading to scattered holdings [Larkin 1992: 87].

Indeed, the "undiluted" case would be that other Spanish remnant colony, Cuba: there the sugar plantation economy expanded easily as foreign demand rose, owing to an elastic supply of labour provided by imported slaves.[126] Slavery of native peoples (Taino, Arawak, etc.) was established early in the Spanish conquest in the Caribbean, and the extreme abuses were what prompted the issuance of the 1542 *Leyes Nuevas* (e.g., Item 1) by Carlos I, which prohibited enslavement of the indigenous peoples (though too late for many tribes). This prohibition however did not however apply to slaves imported from Africa, which were shipped in large numbers to Cuba by the British under the *Asiento de Negros* and later by the Spanish colonialists themselves to cover their labour requirements.

Meanwhile, being already covered by the *Nuevas Leyes,* as a latecomer to the global export economy, and given its pre-existing small-peasant economy, the Philippines had no history of colonial enslavement nor did a demand exist for foreign slave imports.[127]

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[126] On this, see Klein [1975] or Knight [1977], who show the concurrence of the increase in African slave imports and the expansion of areas planted to sugar.

[127] Ley 56, Titulo 45, Libro 9 of the *Recopilacion* issued 1608 prohibits the transport of slaves either from or to the Philippines on the galleons.

By the time the export economy became established, social and intellectual trends had already shifted globally against slavery, with Britain abolishing the slave trade in 1807 and slavery itself in 1834. Spain would abolish slavery only in 1868.

4. Conclusion

From around the second half of the 19.C, the main characteristics of Philippine trade and economy described above had been defined; these features would persist until well past the Revolution and into the U.S. occupation. Further changes would doubtless occur to complete the picture, but the economy's visage as transformed through trade—from being a subsistence economy to being an export economy—had by then been largely completed. The economy's integration into the world economy would become even more direct and complete with technological improvements in communications and transport, notably the cable connections to Hong Kong and the opening of the Suez Canal (1869). Both developments would allow the major banks and corporations to participate more directly in shaping the country's international and internal role—making even the proprietary foreign merchant firms superfluous and dispensable [Legarda 1999]. The colonial transformation would finally be completed after the defeat of the nation's independence struggle and its subsequent occupation by the U.S. At that point the odd hybrid nature of Philippines colonial status that perplexed Legarda would be resolved. The dichotomy between economic and political sovereignty would both thenceforth reside in the same colonial power, and a more orthodox colonial pattern of trade would have been established. It remains for a future effort to document whether direct colonial rule significantly affected production relations, i.e., whether for example plantation economies based on wage-labour became a more prevalent economic form.[128]

It is a curiosum that the largely liberal trade regime adopted by the colonisers for the Philippines after the Congress of Vienna (1815) remained fairly constant even as commercial policies in Spain itself vacillated between protectionism and free trade. Protectionist pressure was always associated with the textile manufacturers of Catalonia (Spain's most industrially developed region), the agriculturists of Castile and Andalusia, and the Basque metal industrialists. The free-traders, on the other hand, were represented by academics and statesmen espousing liberal ideas and powerful Madrid commercial interests [Serrano Sanz and Sabate Sort 2020]. A summary of the arguments and rationales put forward by either side is provided by Vicens Vives [1969: 702-705].

Spain's resulting commercial policy was the object of a long-drawn-out struggle between protectionists and free traders, which Vicens Vives [1969: 702] described as "harsh and stubborn". Serrano Sanz [2011] distinguishes three phases of commercial policy in Spain itself even under more or less predominantly liberal governments: (a) a predominance of "prohibitionism" from the Trienio (1820-1823) to the 1840s; (b) a "moderate liberalism" from 1869 until 1890-1892; and finally (c) protectionism until the Spanish civil war. This account shows that Spain itself continued to pursue protectionist, if not mercantilist policies. Even during its most liberal periods, when Spain pursued significant fiscal and regulatory reforms, *trade* policies went largely untouched [Serrano Sanz 2011]. Spain's tariff system of 1820, contained numerous banned items (numbering some 650) intended to protect domestic industry (e.g., cotton fabrics, footwear, clothing, firearms, other iron products, and cereals). These prohibitions continued, with the list gradually being shortened, through various tariff reforms in the 1840s. This regime underwent a sea-change only belatedly however with the promulgation of the "Figuerola tariff"[129]

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[128] A natural focus of initial research interest would be the fate of the friar estates, which the U.S. regime had acquired and meant to distribute to "tenants" (large or small is unknown). The question is whether the U.S. occupation provided more leeway for American individuals and corporations to directly acquire these properties. There were prominent, at times controversial, attempts by U.S. persons to purchase some of these properties and questions over maximum ownership limits arose and were litigated between the federal U.S. and the Philippine legislature. In the event, the status as of 1932 was that of the 170,329 hectares purchased, only 37 percent (62,833 hectares) were owned by Filipinos [Caughlin 1947: 60].

[129] Laureano Figuerola (1816-1903) was professor of law and economics who was later appointed minister of finance (*hacienda*) (1868-1870) under the post-revolutionary provisional government until shortly after the installation of Amadeo I. Together with Moret, Echegaray, Castelar, and others, he was part of the Asociación para la Reformka de los Aranceles de Aduanas which advocated free trade and customs reforms.

(in force 1869-1891), which became possible only as an offshoot of the 1868 Revolution that deposed Isabela II. The 1869 tariff schedule abolished all export and import restrictions, eliminated the flag differential duty and, except for "extraordinary duties" of 30-35 percent,[130] reduced most import taxes to 15 percent for purely revenue purposes [Vicens Vives 1969: 710]. This policy, which represented the peak of the liberal trend, was still at best "mild" or "moderate" owing to the maintenance of much higher protective tariffs on large sensitive sectors. By 1875 a protectionist backlash was brewing owing to an agricultural crisis provoked by competition from grain imports. The protectionist trend would ultimately prevail from the 1890s until well into the 20.C. under Franco.

As this chronology shows, the transformation of the Philippine economy from 1830 up to the Philippines' independence in 1898 overlapped to a significant degree with the era of liberal trade policy in Spain itself (1869-1891). It is a remarkable fact nonetheless that liberal trade policy in the Philippines antedated the liberal trade regime in Spain itself and remained essentially open even as the tug-of-war between free trade and protectionism raged in the Peninsula. This disconnect can only be understood because Spain, in pursuit of its own interest, applied a different policy to its colony from what it regarded as appropriate to itself: open-trade for its colonies and selective protectionism for itself. Even under liberal governments Spain's politics needed to extend special protection to influential economic sectors (e.g., the goods subject to "extraordinary duties" even under Figuerola). By contrast, no such imperatives or powerful vested interests existed in the Philippines. Without much resistance, native industries such as the traditional textile production in Iloilo or Negros could be readily sacrificed to imports in favour of the surging export industries, with minimal regard for social risks and consequences. From a metropolitan view, the colony that produced exports for the world market served a more useful purpose—particularly in fiscal terms—than one that largely served domestic demand.

While beyond the scope of this paper, it is important to point out that the country was also treated "exceptionally" in the political sphere. Nineteenth-century Spain was a veritable hotbed of liberal political reforms as originally envisioned in the 1812 Cadiz constitution and reaffirmed in the 1868 *La Gloriosa*. These reforms encompassed the assertion of civil rights, the freedom of the press, representative democracy, the separation of powers, and separation of church and state. Such was "Rizal's Spain" [Sarkisyanz 1995], the vibrant liberal, secular society that fired the imagination and fuelled the hopes of Rizal and his reform contemporaries. Yet Spain as coloniser, looking to its own interest, saw fit to suspend the application of these reforms to the Philippines and deny these rights and liberties to Filipinos. A jarring contrast is to be found in the suppression of religious orders in Spain itself, including the expropriation of monastic properties (1835-1837), even as liberal and conservative governments in succession continued to tolerate (if not actively encourage) the continuing sway of frailocracy in the Philippines as a cynical means of social control.

This incongruous application of liberal economics and illiberal politics would ultimately prove to be an explosive mixture for Spain's colonial rule in the Philippines.

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[130] Even the high extraordinary duties were in principle granted only for six years and would be gradually reduced from 1875 until they would equal fiscal duties by 1881. This was known as the "Fifth Base of the Basic Law". By 1876, however, the tide would turn and protectionists would manage to suspend the implementation of the Fifth Base, thus prolonging the levels of extraordinary rates.

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Annex. Stolper-Samuelson with and without rigid wages in one sector.

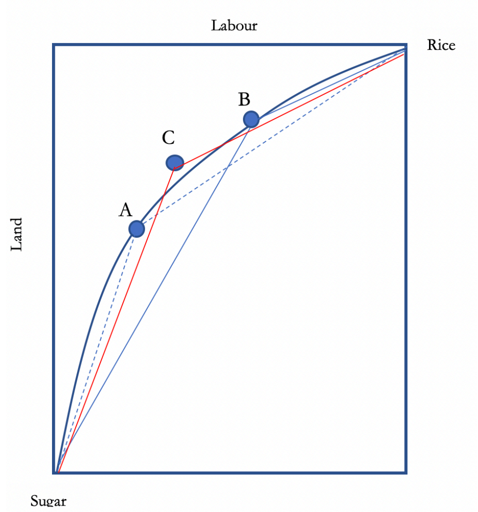

Figure A.1

Figure A.1 shows the familiar Edgworth-Box for the production of two goods (sugar and rice), using the factors land and labour. The curvature of the contract curve shows sugar is more land intensive.

Point A represents the autarky equilibrium. When trade is opened, absent a wage distortion, the economy moves to point B, where more sugar but less rice is produced. Both industries however employ more labour-intensive techniques, as seen from the pivot of the solid blue rays (representing factor intensities) towards the labour axis, when compared with the dotted lines. This is standard Stolper-Samuelson result.

With a fixed wage, however, point B cannot be attained and the economy instead moves off the efficient contract to a point like C, which still represents an increase of sugar and a decrease of rice production relative to A, though not as pronounced as at point B. Factor ratios as seen from the slop of the red rays, are also less labour-intensive than at B but more so than at A.

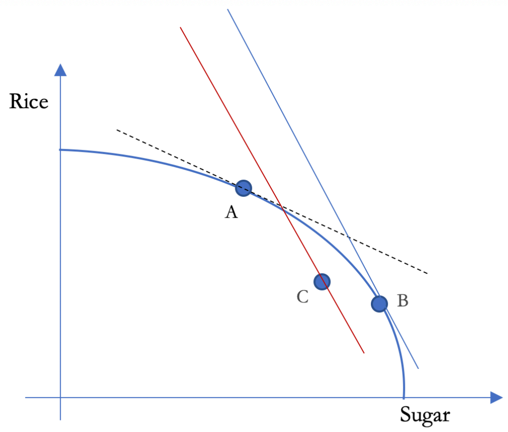

Figure A.2

Figure A.2 depicts the same situation but now on the production possibilities curve: the dotted and solid blue lines respectively reflect autarkic and free-trade prices, which correspond to efficient points A and B on the production possibilities curve. The wage distortion moves the economy to the inefficient point C. But the diagram shows the possibility that even an inefficient point C can be superior to the autarky point A when both are valued at world prices.■