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**Wipeout: Sangley Mercantile Dominance and Persistence
in the Spanish Colonial Period in the Philippines**

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Wipeout: Sangley Mercantile Dominance and Persistence in the Spanish Colonial Period in the Philippines

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Abstract

Documentary evidence of the emergence and the eventual complete dominance of the Chinese mercantile traders (Sangleys) during the Spanish colonial period in the Philippines is first presented. We identify the critical traits in the Sangley mercantile genome and the new contractual and organizational technologies which led to the wipeout of non-Sangley merchants from the market. A Malthusian replicator dynamics is proposed to explain the wipeout process. We explain the persistence of the mercantile dominance of Sangleys via the forces serving to curb abuse of market power and non-assimilation of winning Sangley traits by non-Chinese following the Akerlof-Kranton identity economics.

Key words: Market dominance, Sangley traits, Emergence, Ethnicity
JEL Classification: N0, L10

Bullets: (a) Sangley mercantile dominance as historical fact. (b) Sangley traits of frugality, hard work and mutual help. (c) Contractual technologies allowing non-spot contracts. (d) Malthusian replicator dynamics explains wipeout. (e) Political and cultural forces explain persistence of dominance.

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I. INTRODUCTION

The term “Sangleys” was the local designation for “ethnic Chinese” in the Philippines in the Spanish colonial period. But one can alternatively view “Sangleys” as a bundle of mercantile traits referring primarily to (i) “tubong intsik” or razor thin margins from the high volume/low price tandem that non-Sangleys could not match, (ii) “utang” or custom transaction on credit, (iii) “suki” or repeat business, (iv) *guanxi* or the reliance on fellow ethnic Chinese or near relatives for *key* agency service, information and capital, (v) *partnership* contracts with these key agency suppliers, (v) an exaggerated propensity to save and reinvest backed by backbreaking hard work, (vi) integrated procurement and distribution such as the *cabecilla*.

What ordinary people and the Spanish authorities saw, apart from some or all of these traits, was the eventual outcome – the progressive disappearance of non-Sangleys mercantile enterprises in the face of Sangleys inroads. The local market environment, rife for an invasion of this alien strain, had no immunity. Observer after observer attested to the virtual wipeout.

II. DOCUMENTARY ACCOUNTS and OBSERVATIONS

Since numerical data on Sangleys operations and Sangleys dominance in Spanish Philippines are not available, we will depend on observer and documentary accounts to drive our discussion and analysis. The following is a sampler of those accounts.

“In the islands of the Philippines, they have obtained almost a monopoly of retail trade, and the indolent habits of the natives cannot at all compete with these industrious, frugal and persevering intruders.”

A2. On Dominance: Thin Margins

- Robert MacMicking (1850)

- Domingo de Salazar (1590)

“Nor in the ordinary transactions of life do they make the mistake of requiring extravagant profits.”

- John Bowring (1858)

- Domingo de Salazar (1590)

["The Chinese, and the Parian
at Manila," Blair and
Robertson, Volume 7]

A3. On Dominance: Small Businesses

“They are the objectionable people, because they absorb trade. In the last few years all the small businesses that the Filipinos had before have been absorbed by them...They have got every business here.”

- Robert MacMicking (1850)

A4. On Dominance: Peddlers

“The Chinaman is a great merchant, a great peddler, and if you keep the Chinaman out of the country I don’t see who is going to do the peddling over the country...The whole system of business all over the Islands is all dependent on the Chinese peddlers...I don’t see how the country is going to get without them.”

HDC Jones (1899)

[Testimony: Report of the Philippine

Commission to the President, vol. 2]

B. On Credit-Based Business

“They are so accommodating that when one has no money to pay for the bread, they give him credit and mark it on a tally...This has been a great help for the poor in this city; for had they not found this refuge they would suffer want.”

- Domingo de Salazar (1590)

- [“The Chinese, and the Parian at Manila,” Blair and Robertson, Volume 7]

“...the Portuguese of Macan...buy their merchandise at the fair in Canton in China, and bringing the same to the city of Manila...they make a monopoly of it, without the inhabitants [of Manila] being able to make any profit, such as they had before when the Chinese came to the said city to sell their merchandise. The latter, besides selling the merchandise for very suitable price, gave credit for them until they came back...all this has ceased with the coming of the Portuguese, who not only give no credit, but sell the merchandise for excessive prices.”

- Juan Grau y Monfalcon (1636)

[Letter to the King: “Discussion Regarding Portuguese Trade at Manila”, Blair and Robertson, vol. 30]

C. On Mercantile Technology

“Their method of doing business is...united capital and effort, division of gains accordingly, quick sales and small profits...They have obtained the exclusive retail trade in Manila, and a great part of the wholesale trade...”

- Manuel Bernaldez Pizarro (1827)
Source?

“In these Chinese shops, the owner usually engages all the activity of his countrymen employed by him in them, by giving each of them a share in the profits of the concern, or, in fact, by making them all small partners in the business...so that they are also benefiting themselves. To such an extent is this principle carried, that it is usual to give their coolies a share in the profits...in lieu of fixed wages...they are found to be most industrious and useful ones when interested even for the smallest share.”

“A China shopkeeper makes his shop his home, all of them sleeping in those confined dens at night...The mestizos cannot do this but must have a house to live in out of the profits of the shop; and the consequence has been that when the shopkeeping profits could no longer do that, they have nearly all betaken themselves to other suitable occupations, from which the energies of their Chinese rivals are less likely to drive out.”

- Robert MacMicking (1850)

D. On Sangley Indispensability

“The whole system of business all over the Islands is dependent on the Chinese peddlers...You know the Chinaman will go everywhere. I don't see how the country is going to get on without them.”

- HDC Jones (1899)

[Testimony: Report of the Philippine Commission to the President, vol. 2]

“After the end of the war, the need of the city began, for, because of not having Sangleys who worked at the trades, and brought all the provisions, there was no food, nor any shoes to wear, not even at excessive prices.”

- Domingo de Salazar (1590)

- [“The Chinese, and the Parian at Manila,” Blair and Robertson, Volume 7]

E. On Collusion: Enforcement

“Among themselves they have great system and energy in all those of one trade acting together in all matters that affect them...If anyone would dare to do so (i.e., break the collusive agreement), the others upon his return to China would bring suit before their mandarins, and thus they would destroy him and all his relatives.”

- Governor Tavora (August 4, 1628)
[Letter to Philip IV: “Doubts in
Judicial Matters”, Blair and
Robertson, Vol. 22]

F. On Dealing with Authorities: Bribes

“The Sangleys have so many methods of placing private persons, both religious and laymen, under obligation by services and presents, that when anything is ordered for them which does not suit them...they prevent the execution of it by a thousand methods of favors and negotiations.”

- Governor Tavora (August 4, 1628)
[Letter to Philip IV: “Doubts in
Judicial Matters”, Blair and
Robertson, Vol. 22]

G. On Predation

“Under the pretext that they must pay taxes to your Majesty, a penalty was imposed upon the sale of any article without its previous registration, but at the time of this registration the best of their merchandise was taken away from them, and that at the price which the inspector or registrar chose to set.”

- Domingo de Salazar (1583)
[“Relation of What Concerns the
Sangleys, Affairs of the
Philippine Islands,” Blair and
Robertson, Volume 5].

“The Chinese merchants too are being ruined because the Spaniards are not prompt with their payments. They weep, and say: ‘If we owe anything to the Spaniards, we are straightaway thrown into prison until we pay and if the Spaniards owe us anything, we cannot collect it.’”

- Governor Benavides (1603)
[Letter to Philip II, Blair and Robertson, Vol. 12]

H. On Contract Enforcement: State

“All possible care must be taken to prevent their (Sangleys) trusting their goods to Spaniards, for without knowing them, the Sangleys let them have the goods at an enhanced price, without personal security; and afterward the Sangleys tire themselves and us in trying to collect the money, so that credit is lost.”

- Antonio Morga (1598)
[“Report of Conditions in Philippines”, Blair and Robertson, Volume 10].

I. On the Threat of Retribution from China

“If the Castellans show justice to the Chinese...there will be amity between this kingdom and that...If not, the king...will command a thousand vessels of war to be built with a force of soldiers...and, without having mercy upon anyone, they will make war and afterward the kingdom of Luzon will be given to that people which will pay tribute to China.”

- Viceroy of Chincheo (1605)
[Letter to Governor Acuña, Blair and Robertson, Volume 7]

“As there are a superabundance of population in China, and the wages and profits there are little, they regard as of importance whatever they get in the Filipinas.”

- Antonio Morga (1598)
[“Report of Conditions in Philippines”, Blair and Robertson, Volume 10].

J. On the Pancada

“Another advisable measure was that no Chinese or foreign ships could sell at retail the goods which they carried...” [The Council were to appoint qualified persons to do the purchase].

“These persons alone should buy in a lot all the merchandise brought by the ships and distribute it fairly among the citizens...at the same price...not only will you rid yourself of the Chinese retailers...but there will be avoided many other losses...Their shops...could...be given up to Spaniards...”

- Philip II (1589)
[Royal Decree Regarding
Commerce, August 9,
1589, Blair and Robertson,
Vol. 7]

These observer testimonies point to the total dominance of the mercantile trade by the Sangleys throughout the Spanish colonial period in the Philippines. The dominance is highlighted by the extreme discomfiture with which the Spanish colonial authorities viewed them and many attempts to supplant their grip without any lasting success. The accounts also suggest the origins of this dominance: cultural, organizational, the business environment and the Sangley response to these threats. In the next section we offer a formal dynamic account of the Sangley dominance utilizing such suggestions.

III. SANGLEY GAME: THE PAYOFFS

A. Bilateral Competition

Consider the retail and distribution environment in the Hispanic times as populated by firms that can employ either Sangley traits (S) or their opposites (NS). Thus, when two firms compete in a market, each has an action set (S, NS). The market payoffs to the action employed depend on what the rival firm employs. When the two firms employ NS (i.e., charge a high price for the same commodity) the payoffs are high. When both employ S, the payoffs are lower for both. The problem with the (NS, S) combination is that, if one firm shirks, i.e., shifts to S, the shifter captures the market and the other is left empty-handed. For illustrative purposes, let the payoff table of the strategic Sangley game with strategy sets (S, NS) for each of the two firms (F_1 , F_2) be:

Table 1. Payoff Table of the Sangley Game

Action		F₁	
		S	NS
F₂	S	a, a	c, 0
	NS	0, c	b, b

This is a simple Prisoner's Dilemma payoff table if $c > b > a > 0$. The static Nash equilibrium of the game is (S, S). It is also an evolutionarily stable strategy. The superior symmetric outcome is produced by (NS, NS) but this is vulnerable to shirking. Thus, if the market sanctions such payoffs, (S, S) will prevail unless the firms are able to collude.

B. Why These Payoffs?

The crucial assumption we make about the payoff table is $c > b > a > 0$. Why is this a natural market payoff for a duopoly interaction? Since (b, b) is the collusion payoff, it is natural that shirking by one firm improves its revenue flow ($c > b$) and worsens that of the cooperator (thus $0 < b$). If the latter responds by playing S, the shirker's position is eroded, thus, $a < c$. Since (S, S) is a competition profile while (NS, NS) is a collusion profile, $b > a$. However, primitive the mercantile environment in the Hispanic Philippines, market custom for the same good will always gravitate towards low price sellers or S. Thus, the inequality assumptions seem reasonable enough.

The static equilibrium of the game and its notional repetition suggests that both firms will eventually exhibit the S trait. There is a *wipeout* of traits but not of firms. The historical *wipeout* was, however, that of non-Sangley firms.

III. WIPEOUT: THE MALTHUSIAN DYNAMICS

Suppose there are n firms of which initially s is the fraction of S-type firms and $(1 - s)$ is the fraction of NS-type firms. Thus, firms are labeled by their traits (S or NS) and an S firm cannot exhibit NS traits and vice-versa. Again, let $c > b > a > 0$. Our concern is how s behaves over time. We assume the adequacy of the Malthusian replicator dynamics (MPD), (the simplest among replicator equations) given by (see, e.g., Montet and Serra, 2003).

$$(ds/dt) = s(U_S - \bar{U})$$

Where U_S is the fitness level of an S-type firm and $\bar{U}$ is the average fitness of the population. The intuition is straightforward: If the fitness of S-types exceeds the population average, S-types will flourish (i.e., replicate) and raise their share in the population and vice-versa. Fitness in this case is given by the averages of the payoffs in Table 1. An S-type firm gets “a” if it meets another S-type firm; it gets “c” if it meets an NS-type firm. The probability of meeting an S-type firm if n is large is s ; that of meeting an NS-type is $(1 - s)$. Thus, the average fitness of an S-type firm is:

$$U_S = s(a) + (1 - s)c = s(a - c) + c.$$

Similarly, the average fitness of an NS-type firm is

$$U_{NS} = s(0) + (1 - s)b = (1 - s)b.$$

The average fitness of the population $\bar{U}$ is

$$\bar{U} = sU_S + (1 - s)U_{NS}.$$

The MRD is, thus,

$$\begin{aligned} (ds/dt) &= s[s(a - c) + c - (s^2(a - c) + sc + (1 - s)^2b)] = \\ &= s[(c - b - a)s^2 + (a + 2b - 2c)s + (c - b)]. \end{aligned}$$

The parenthesized expression can be factored as $[(c - b) - (c - b - a)s] [1 - s]$. Let $C = (c - b)$, and $B = (c - b - a)$.

$$(ds/dt) = s(1 - s) [C - Bs].$$

Note that $(ds/dt) = 0$ whenever $s = 0$, $s = 1$ and $s = C/B$. Note too that $s = (C/B) > 1$ (if $a + b < c$) or < 0 and is disqualified. The two remaining solutions are distinguished by their stability property. A solution s^* giving $(ds/dt) = 0$ is stable if $d(ds/dt)/ds < 0$ at $s^* = 0$ (see, e.g., Montet and Serra, 2002). Taking the derivative with respect to s , we get:

$$d(ds/dt)/ds = (1 - s) [C - Bs] +$$

$$s(-1) [C - Bs]$$

$$s(1 - s) [-B].$$

Therefore, we have

$$d(ds/dt)/ds = \begin{cases} (c - b) > 0, s = 0 \\ - (a) < 0, s = 1. \end{cases}$$

Clearly, $s = 1$ is the unique, globally stable solution. We have shown the following:

Lemma: Suppose that binary interaction among firms has payoffs given by Table 1 with $c > b > a > 0$ and the replicator dynamics is Malthusian. Then, the fraction of S-type firms will approach unity in due time regardless of initial value.

Corollary: (Wipeout) The wipeout of NS-type firms is a certainty in due time given the assumptions in the Lemma 1.

Wipeout of Non-Sangley firms appear to be the verdict of the historical records of the Hispanic Philippines mercantile history. Observers after observers attested to the seeming invincibility of Sangley mercantile enterprises and networks.

The Spanish authorities contemplating the wipeout landscape attempted about the only course open in the mercantilist arsenal: barrier to entry. The *Pancada* system was

designed to bar the ethnic Chinese from the retail trade altogether, thereby paving the way for non-Sangley participation. The other more radical barrier was *expulsion* from the a province or from country altogether. The latter was often resorted to (1596, 1597, 1747, 1769). Needless to add, both failed badly.

IV. WHY CHINESE?

In Section II, we employed the assumption that “Sangley” represented a bundle of market-favored traits but also that firms were either Sangley or non-Sangley. Crossovers were not allowed.

In the consciousness of observers at that time, Sangley traits were displayed only by the Chinese and by none others. While the natives and other ethnic groups could, in theory, learn and mimic the traits, we argue that the politico-economic pressures fostering the Sangley traits were stronger for ethnic Chinese than for other groups.

We focus on trait (vi): The exaggerated propensity to save, reinvest and work – the flipside of this coin is the studied avoidance of conspicuous consumption and of visible wealth acquisition, or a preference for liquid assets. While there are many motivations such as the possible return to the homeland, for the exaggerated preference for liquid assets, we argue that official and unofficial predation made this trait especially rewarding for ethnic Chinese. From the viewpoint of the Spanish authorities, the largely non-Christian ethnic Chinese were a potential threat to their supremacy and must be kept in check. A Chinese invasion from the mainland was never out of mind. The letter to Acuña of the Viceroy of Chincheo was one reminder. The Chinese community being a fifth column of that invasion was an idea easy to sell. The Spaniards’ natural allies were

the most numerous group, the Indios (indigenous population), who were also predominantly Christians. This meant a virtual ethnic stratification where the ethnic Chinese occupied the bottom rung and this was reflected in official and legal judgments and pronouncements. The Spanish authorities took it as normal that the Chinese should have “less in law”.

The Chinese in turn expected the Spanish law to weigh heavily against themselves when in dispute with non-Chinese. Anti-Chinese sentiment and agitation was very much a part of the landscape and expulsion was always in the air. One perhaps the most effective adaptation to such a landscape is “cash”.

“Cash” can influence both rule-making and rule enforcement by the Spanish colonialist. A royal decree from Spain still needed enforcement locally where “cash” talked loudly. These local enforcers knew besides that their own day-to-day existence was made so much more tolerable by services of the Sangleys. Subverting decrees coming from the center (Manila or Madrid) was, thus, twice rewarding for the individual officials whose own horizon may be shorter than the authorities’. “Cash” either bought a stay of execution of, or even immunity from, the law. “Cash” is easy to carry along with one’s person if expulsion ever became a reality. This is also one explanation for the diasporite Jews’ preference for gold and human capital, assets that can be carried away in case of expulsion by the “goyim” (gentiles). Almost every ethnic minority with mercantile flare under constant threat of expulsion or persecution by authorities who only half-believed in the wisdom of those rules, will develop a “cash imperative”.

Another way of putting this is that the fixed cost of survival is much higher and more random for the ethnic Chinese than for other ethnic groups. It is no different than

existence in temperate zones: the fixed cost of survival is much higher and more volatile than in the equator; which calls for higher savings and more determined surplus generation. Those who have less in law tend to have more in cash.

The second reason is self-selection. The Spaniards who came to the Philippines were largely missionaries or soldiers with aversion to painstaking and competitive “truck and barter”. The first wave of Chinese who came had, in contrast, a mercantile outlook motivated purely by profit. Those *coolies* came later were exposed in the homeland to and easily embraced the mercantile ethos of those who came before. The Spaniards not only could not be expected to embrace but even genuinely disdained the mercantile ethos of the Sangleys. The prevailing Iberian Physiocratic worldview, indeed, considered “trade” as “unproductive” and “parasitic” and considered “interest rate” as flirting with sin. The Sangleys were frowned upon as thoroughly consumed by profit. That they were largely non-Christian partly explained such crass profit-seeking.

The third reason is superior mercantile technology built on strong relational contracts (*guanxi*) and high-powered incentives contracts (surplus sharing). These were most likely imported from China where the internal market environment was much more trying and competitive. The locals and Spaniards had no counter to these managerial innovations.

V. WHY THE CHINESE DOMINANCE PERSISTED

What still needs explanation is, first, why the relatively low prices in the run-up to the capture were largely sustained after the capture and, second, why the winning set of traits failed to cross the ethnic divide. Note that the post-capture environment pitted

Sangleys against Sangleys. Common purpose, common language, perhaps common village origin would have made “collusion” sustainable. And to an extent, this happened. There were persistent but largely localized complaints of price gouging the extent of which is unknown. The Sangleys themselves appeared to have an effective sanction mechanism against renegades in its own ranks. Threat of punishment upon renegades involved pursuits and reprisals in the homeland. And yet the level of rent extraction left no room for alternative non-Sangley enterprises to come back. This much were sure: the post-capture collusive prices were still lower than would sustain non-Sangley challenge even with the backing of the Spanish authorities (e.g., the *Pancada*). It is possible that inter-Sangley competition was itself important as testified to by MacMicking (1850) that weakened the collusion-related price gouging. It is also possible that the collusive force was used to prevent excessive profiteering. The guanxi as a collective action mechanism had this other, regulatory outcome. This becomes operative if there is an external countervailing force that motivates self-policing.

The most binding motivation for self-policing was the persistent agitation for Chinese expulsion, either from the Philippines, from the provinces, or from retail trade. There were also periodic anti-Sangley disturbances, which involved torching of Sangley ghetto (“burning of the Parian” was common). Although the high prices resulting from attempts at either type of action doomed these initiatives soon after initiation, they still served as sufficient reminders to the Sangleys that collective abuse of market power was not to the Chinese community’s advantage. Collective self-restraint was itself one collusion outcome although individual deviation for quick-profit was always about. The persistent anti-Chinese agitation served as “consumer countervailing

lobbies” (see Fabella, 1996) which helped curve the welfare cost of market power. A primitive regulatory mechanism was the unintended consequence of the agitation.

There remains the important question why non-Chinese failed to assimilate the Sangley traits in a big way; in other words why the Sangley traits failed to cross the ethnic divide. The Sangley traits were identified with ethnic Chinese, who as a group were looked down by the other ethnic groups. Furthermore some of the traits were viewed as morally borderline if not sinful (e.g., usury). Assimilating the Sangley traits is culturally costly for non-Chinese as involving doing violence to one’s own identity. This is the message of Identity Economics (Akerlof and Kranton, 2010; 2000): certain choices which are privately monetarily rewarding may be foregone in view of the cost associated with doing violence to one’s cultural identity. This must have figured in the Chinese exclusive hold of Chinese traits.

VI. Conclusion

The Chinese mercantile tradition can be likened to an organism honed somewhere else that enters a host environment where it has no natural competitor and eventually attains the top of the food chain. It exhibited cultural and organizational traits markedly superior to those of its rivals which it subsequently wiped out. The mercantile dominance survived its singular success because the political forces in the Spanish colonial period was ever so threatening (expulsion and price riots) and effectively acted as a countervailing force so as to mitigate market power abuse by the Sangleys. The Sangley dominance perisited for so long because the traits that made the Sangleys so successful could not be easily assimilated: non-Sangleys both looked down on them as morally questionable and even more costly, they involved doing violence to Non-Sangley ethnic identity.

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