The Conflict Between the Manila Galleon Trade and the Mercantilism Policy of Spain

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Abstract. The purpose of this article is to delve into the rise and development of the Manila galleon trade between the 16th and 19th centuries and to focus on the deeper reasons for the limitations of Spanish control over this important trade route. The Manila galleon trade not only connected Manila in the Philippines with Acapulco, Mexico but also established economic ties between China and Spanish America, which used Manila as a transit point. In the entire trade, Spain, as a nominal trade monopolist, appears to be unable to effectively control this trade. Research suggests that this is mainly attributed to Spain's directional errors in implementing mercantilist policies in its colonies, which contradicted the principles of free trade that had developed in Manila's sailing trade during the first thirty years. Under the guidance of mercantilism, Spain excessively pursued gold and silver wealth while neglecting the overall development of the colonial economy, resulting in a serious mismatch between domestic and colonial production and actual demand. This policy orientation not only limited the growth potential of colonial economies but also weakened Spain's competitive position in global trade.

Keywords: Manila galleon trade, Spanish colonization, Silver trade.

1. Introduction

The Manila galleon trade originated in the 16th century when Spanish colonizers arrived in the Philippines. Although they did not discover abundant treasures, they realized the crucial position of the Philippines in connecting Eastern and Western trade [1]. In 1573, a large sailboat loaded with Chinese goods successfully arrived in Acapulco, Mexico, marking the official establishment of this trade route [1]. This route also brought stable commodity supply and huge economic benefits to Spain's colonial jurisdiction in Mexico, the endpoint of the route. However, with the expansion of Manila's sailing trade, Spain's colonial trade monopoly system was impacted. Spain attempted to re-establish a monopoly system on the Manila galleon trade by enacting a series of laws, but the outcome was not satisfactory. This paper attempts to start from the Galleon trade to explore why Spain's colonial control was weakened in this period, and how it reflected in the policy of the Manila galleon trade.

2. The Rise and Development of Manila Galleon Trade

The establishment of the Manila galleon trade originated from the different needs between the two colonies of Manila in the Philippines and Acapulco in Mexico. In 1564, when Spanish colonizer Legazpi set foot on the land of the Philippines, he discovered that the land was not the source of wealth he had imagined [2]. However, the Philippines occupies an important position in the strategic system of the Spanish Empire and is the protective wall on the west coast of the Americas and the bridgehead for the expansion of forces in the Far East. Therefore, Spain did not give up the colony easily. On the contrary, they saw the potential of the Philippines to establish trade relations with China. As early as the Ming Dynasty, the trade between China and the Philippines has shown obvious advantages. In 1567, the Ming government conditionally opened the sea ban, which paved the way for trade between China and the West. Legazpi is keenly aware that trade with China is more beneficial than competing with Portuguese colonists for spices in the Moluccas. As a result, he began to treat the Chinese well to promote trade with China. It makes the Philippines, an area where its resources have not been developed, profitable. At the same time, Mexico is a rich land of precious metals. Since Spain established a new Spanish colonial jurisdiction here in 1535, a large number of silver mines were mined and flowed to Spain. However, the needs of American colonies gradually shifted from simply acquiring wealth and transferring it to their home country to self-sufficiency. To obtain higher quality and cheaper goods, especially textiles and spices, the colonizers of New Spain chose to invest in the Manila galleon trade [1]. This route not only avoids interference from other forces such as its home country, but also brings stable commodity supply and abundant economic benefits to the Viceroyalty of New Spain. The establishment of the Manila galleon trade was the convergence and satisfaction of the different needs of the two colonies.

In the development of the Manila galleon trade, China's silk trade plays a crucial role, which is the economic pillar of the whole trade system. Compared with the silk products of Spain and its colonies, China's silk has unparalleled advantages in quality, variety, and price. The clothes and other industrial products demanded by Spain and its colonies were originally mainly imported from Spain. With the continuous expansion of the Spanish Empire, the local production capacity of Spain was unable to meet this huge demand. Against this backdrop, low-priced, high-quality Chinese goods, especially silk, quickly became dominant. The influx of Chinese silk not only filled the gap in the American market but also made Chinese goods account for the vast majority of the cargo of Manila galleons [2].

With the influx of a large number of Chinese silk products into Spain and its colonies, it was the outflow of Spanish silver. From the Yuan Dynasty to the early Ming Dynasty, China's paper money lost its credit due to devaluation, and silver gradually became the main exchange medium due to its stable value. However, the local silver output is limited and unable to meet the market demand. During this period, China had a great demand for foreign silver. This led to a significant increase in the purchasing power of foreign silver in China, so the New Spaniards used silver seized from American colonies to exchange with China for cheap products. Silver was continuously transported to Manila and then to China. In the two and-a half-centuries before 1800, China may have obtained 10000 tons or even more of silver through Manila. From the mid-16th century to the mid-17th century, China accounted for 1/4 to 1/3 of the world's silver production [1].

The “silver silk trade” of trading Chinese silk products for silver in America has been the theme of the Manila galleon trade for a long time and even became a synonym for the whole sailing trade [1]. It was the Spanish mercantilism in the colonial administration that built such a trade exchange demand and background for silver and silk and made it flourish.

3. Spain's Mercantilist Policy and Its Practice in Colonies

Mercantilism prevailed in Europe from the 16th to the 18th century, especially in colonial powers such as Spain, and was widely practiced. The core idea of this theory is that the wealth and power foundation of a country depends on the amount of precious metals it accumulates and maintains. Spain established a colonial management system through the deprivation and control of resources and trade during its colonization of regions such as the Americas and the Philippines.

In the theory of mercantilism, precious metals are the main form of wealth, and only precious metals such as gold and silver are true wealth. So in the colonial economic system, Spain established feudal exploitation as the foundation for acquiring wealth. The “Encomienda” was the most extensive system of exploitation in Spanish colonies, which granted guardianship to colonizers with military achievements and special status in certain areas, enjoyed the right to use the land within the guardianship area, and had the power to "protect" and govern Native Americans, collect tribute, and requisition their labor. Spain extensively mined minerals, especially silver, in the Americas and stipulated that all underground resources of the colonies belonged to the royal family, and any mining area must hand over 1/5 of the mineral products to the royal family, while the remaining 4/5 of the production remained in private hands [3]. Through this method, Spain obtained a continuous supply of precious metals from the Americas.

In addition to directly acquiring wealth from colonies, Spain also implemented a monopoly trade system, obtaining wealth from colonies through trade surplus. The Spanish royal family stipulated that colonies were only allowed to trade with their host country and could not trade with any other country, and even trade between colonial regions was subject to extremely strict restrictions. The royal family specifically established a trade agency to manage trade between the colonial powers and colonies and monopolized trade at designated ports [4]. Spain exported manufactured goods to the colonies, allowing silver to flow to the colonial powers along with trade between the colonies and Spain.

To ensure that local Spanish goods can be sold to the colonies, Spain will to some extent restrict the development of its manufacturing and commercial production in the colonies. For example, in the Americas, from 1570 to 1630, Spain began to restrict the development of the Mexican textile industry, and by 1596, even directly banned sericulture in the Mexican region [5]. As a part of the New Spanish colonial jurisdiction, the Philippines was initially considered by Spain to have no exploitable space, so the Spanish colonial powers mainly used the Philippines as a trade hub connecting the Americas and Asia. Its production, manufacturing, and agriculture were not given much attention, and the Spaniards who came to the Philippines devoted themselves to commerce.

Under such policies, the colonizers who controlled mineral products in the Americas were unwilling to unilaterally transport precious metals to their home countries, and the Spanish colonies also lacked commodities such as silk. The emergence of the Manila galleon trade allowed colonies and colonizers living in colonies to be to some extent free from the control of the Spanish royal family. Therefore, the silk and silver trade was able to develop rapidly in the Manila galleon trade around 30 years from 1573, The trade also emerged during this period as a "free trade era" [6].

4. Spain's Re-Mastery and Failure of Trade

In this way, the Manila galleon trade tended to deviate from the system established by Spain to control and exploit colonial resources, as well as accumulate wealth through trade surplus. The silk and silver trade challenged Spain's monopoly on colonial and intercolonial trade, causing Spanish products to be squeezed out of the colonial market by goods from the Manila galleon trade, resulting in the loss of silver and a decrease in Spanish royal income. At the same time, the New Spanish and Portuguese also came to Manila to seize the business of Filipino colonizers. So from the late 16th century to the early 17th century, to consolidate its colonial rule in the Philippines and maintain local market interests, the Spanish royal family successively issued a series of laws aimed at establishing a monopoly system for the Manila galleon trade [7].

The Spanish royal family granted exclusive franchise rights to the Filipinos, which not only ensured that the trade interests of the Philippine Islands were firmly in the hands of Spain but also further consolidated its colonial rule in the region. Through this measure, Spain effectively excluded the participation of other European countries and American colonies in Asian trade. To protect the local market from the impact of Chinese goods, the Spanish royal family explicitly prohibited the flow of Chinese goods to other colonies in the Americas, especially Peru and other places. The implementation of this ban aims to prevent the proliferation of Chinese goods in the American market. At the same time, Spain has also implemented a permit and cargo ticket system to strictly control the scale and flow of the Manila Galleon trade. By issuing limited licenses and cargo tickets, the Spanish royal family can accurately grasp the cargo capacity and destination of each large sailboat, ensuring that trade activities fully align with their interests. In terms of fiscal revenue, the Spanish royal family imposed high tariffs on the trade of large sailboats. These tariffs not only increased Spain's fiscal revenue but also provided financial support for the sustained development of the sailing trade. Finally, following the principle of mercantilism, the Spanish royal family strictly prohibited the export of precious metals. This measure aims to ensure that scarce resources such as precious metals remain domestically, promote the development of local industry, and enhance the country's economic strength.

However, these laws were not carried out as expected by the Spanish royal family. The violation of the permit system is very common, with actual carrying capacity consistently exceeding the official limit, and even large sailboats with a carrying capacity of over a thousand tons have emerged. The value of goods traveling and returning far exceeds the legal limit. The freight bill system also failed to operate as expected. Originally intended to allow every colonial settler to share the benefits, the freight bill eventually became a tradable commodity, monopolized by a few people in the trade of large sailboats. The bulk trading system has also been violated, with Philippine officials and influential businessmen transporting specific goods from China at pre-arranged prices to evade government pricing mechanisms. They even load and unload goods before commercial ships enter Manila port or after large sailboats leave port to evade government supervision. The regulation prohibiting officials from carrying goods is virtually non-existent, and officials of large sailboats generally engage in profit-making activities. They use their power and position to carry a large amount of goods for transactions.

Although the Spanish royal family attempted to regulate the trade of large sailboats through laws, they ultimately failed to resist the power of merchants and market demand, and most of the laws were not truly implemented. The control efforts of the Spanish royal family were ultimately in vain.

5. The Fundamental Reason for the Lack of Binding Force in Spanish Colonial Policies

The failure of Spain's attempt to reestablish the colonial and colonial trade monopoly system in the Manila galleon trade is on the surface due to the weak supervision and large-scale smuggling of businessmen and officials, but the core root cause is that Spain, as a country that made its fortune in the pre-colonial period, the system formed under the influence of mercantilism does not match the Galleon trade in Manila. The establishment of the Manila galleon trade brought about the trend of trade liberalization, but Spain still expected to restrict the Galleon trade by establishing a colony, which disturbed the free trade rules for the first twenty to thirty years of galleon trade. This is the main reason why Spain tried to establish the Manila galleon trade monopoly system.

Spain adopts a mercantilist economic model. The system established in the Americas and Asian colonies is mainly predatory. They exploit the indigenous labor force in the economic network of the colony itself or easy to develop. For example, they take minerals in America, which is a colony with a sealed nature, which is very different from the British colony after that. Spain ignored the development of the colonial economy. This short-sighted policy led to a single colonial economic structure, a lack of diversity and sustainability. When cheap goods from China and other countries came to the colony, it immediately impacted the original trading system of Spanish local goods.

Spain's excessive pursuit of gold and silver wealth also hurt its trade status. The Spanish royal family and the aristocracy were obsessed with gold and silver, making them mining minerals and ignoring the development of other valuable goods and industries. This single dependence on gold and silver makes Spain's competitiveness in Global trade gradually decline, unable to compete with other diversified European countries [8].

The dislocation of the Spanish domestic industrial structure and colonial demand is also an important reason. The industrial structure of Spain is mainly agriculture and handicraft industry. However, with the development of the galleon trade, the colonial population increased, and the market demand for the manufacturing industry continued to grow. The mismatch between the industrial structure and market demand made Spain unable to meet the diversified needs of the colonial market and made Spain unable to obtain more benefits from trade [9].

The competition and influence with other European countries also had an important impact on Spain's trade status. With the rise of other European countries such as the UK and Holland, their competitiveness in Global trade has gradually increased. These countries have adopted more flexible trade policies and economic systems, actively explored overseas markets, and launched fierce competition with Spain. In this competitive environment, Spain's rigid trade policies and systems are becoming more and more outdated, unable to adapt to the development and changes of Global trade. Spain's original position in the world is gradually declining along with the Manila Galleon trade.

6. Conclusion

This paper mainly starts with the establishment and development of the Manila Galleon and focuses on the in-depth reasons for Spain's control limitation in this important trade route. Spain's mercantilism policy conflicted with the free trade rules in the development of the Manila galleon trade. Spain couldn't get away from the mercantilism system developed in the pre-colonial period, which not only limited the growth potential of the colonial economy but also lagged behind trade globalization and trade liberalization also weakened Spain's competitive position in Global trade.

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