The Galleon Trade

A general uproar in Philippine business and industry followed the Central Bank's announcement in February that henceforth, the peso would seek its own level, vis-a-vis the US dollar. The rate was to be determined on a day-to-day basis according to supply and demand.

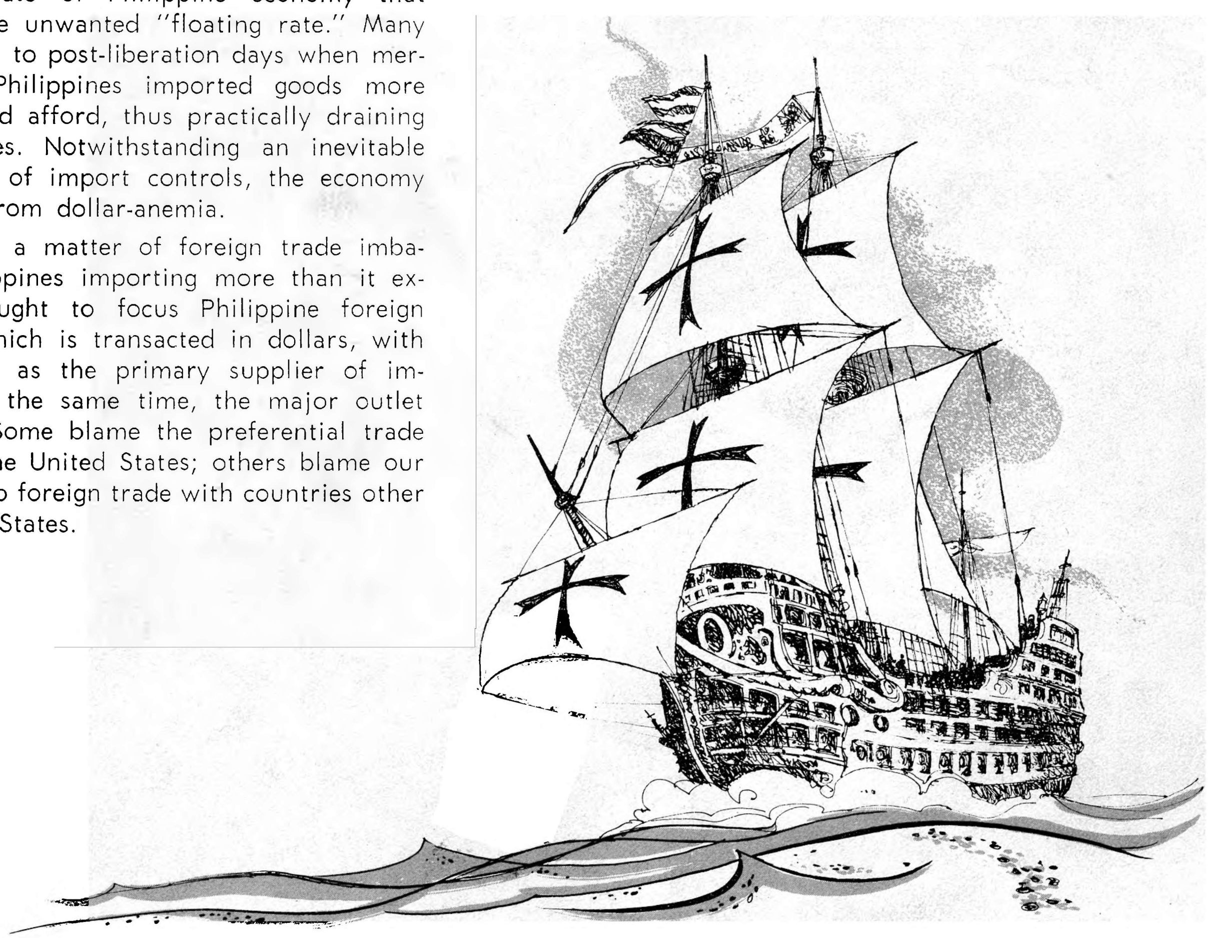
Immediately, the dollar-peso rate shot up from ₱3.90 to over ₱6.00 to the dollar. No sooner did this happen, than industrialists and businessmen were up in arms, for many of them carried long-term loans from foreign suppliers. Amortization scheduled at ₱3.90 per dollar was now to be paid at at least ₱2.00 more. Those who had obligations of say, $1-millon, had to pay over ₱2-million more!

Economists and pseudo-economists had a field day criticizing the state of Philippine economy that brought about the unwanted "floating rate." Many traced the ailment to post-liberation days when merchandise-hungry Philippines imported goods more than what it could afford, thus practically draining its dollar reserves. Notwithstanding an inevitable stop-gap measure of import controls, the economy never recovered from dollar-anemia.

It was simply a matter of foreign trade imbalance — the Philippines importing more than it exported. This brought to focus Philippine foreign trade, most of which is transacted in dollars, with the United States as the primary supplier of imported goods; at the same time, the major outlet of our imports. Some blame the preferential trade agreement with the United States; others blame our inability to develop foreign trade with countries other than the United States.

No amount of criticism, however, can change the situation. There is no choice but to continue trade relations, particularly with the West, inasmuch as we are dependent on them for the supply of goods, equipment, and machinery we urgently need for national development. Of no less importance is our dependence on them to buy our products, mostly mineral and agricultural.

Interestingly, our foreign trade activity dates as far back as the pre-Spanish colonization period when the Chinese, Japanese, and other nearby Asian countries were already engaged in trading with us — if in an informal, primitive way.



The Galleon Trade

Trading was simple — bartering and credit by honor system were used. There was no foreign exchange or banking system to worry about, not even any standard monetary unit. Yet, commerce was active between native and foreign traders, extending from Cebu to Luzon.

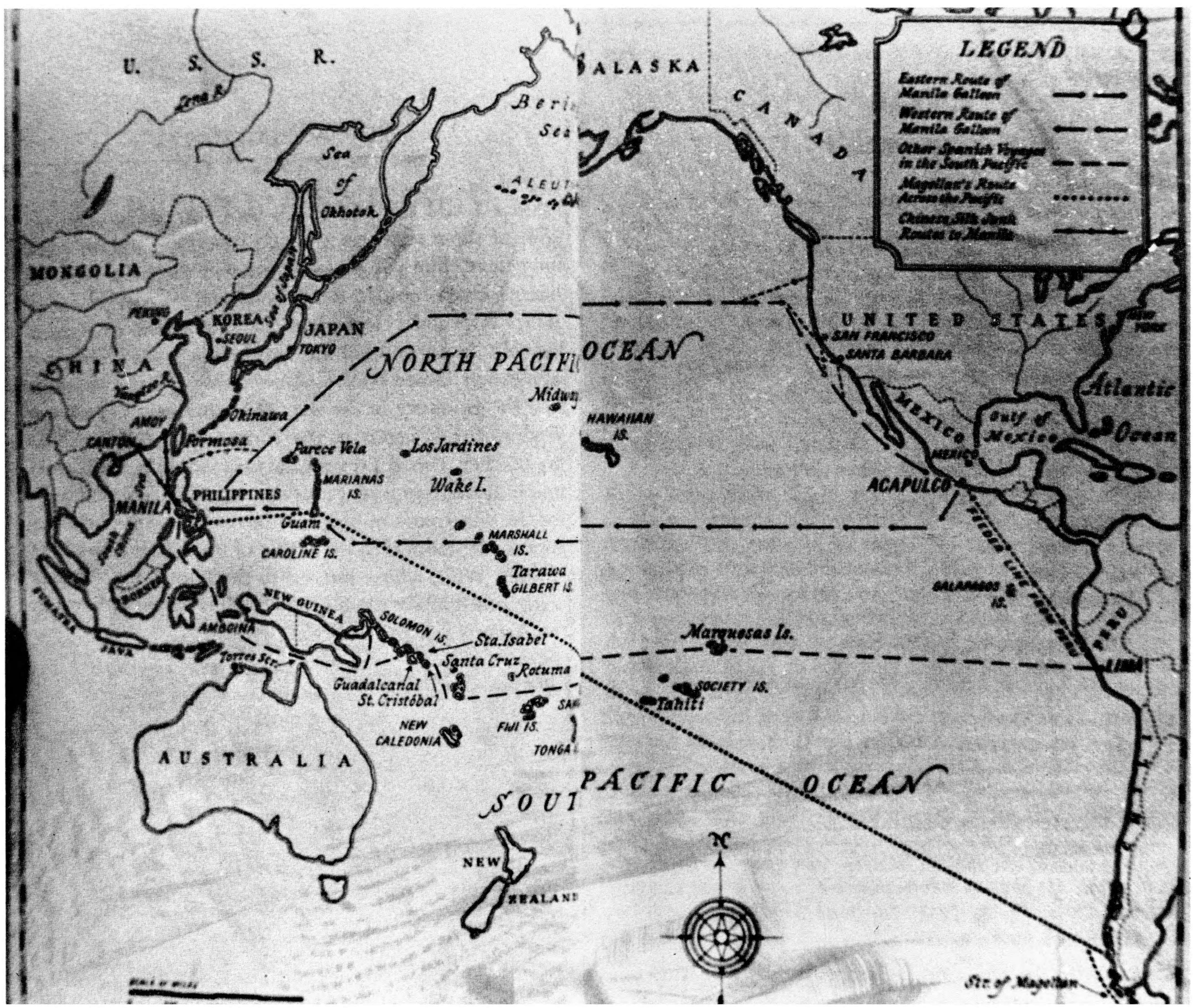
The Chinese brought into the country porcelain, tapestry, and jars; the Japanese brought tempered pots and pans; the Siamese, gold ornaments. In exchange, local traders had silk, pearls, mats, jute, sinamay cloth, and coconuts.

The Peso

When Spain established control of the islands in the first quarter of the 16th Century, commerce became regulated, and standards were adopted. A monetary unit was introduced, later to be recognized as the **Peso,** to serve as medium of exchange for commerce, trade, and more importantly, for tax purposes.

No doubt, Spain's dream of gaining access to the Orient unfolded into reality and the Philippines

THE GALLEON ROUTE



became the starting point to an empire build-up in the east. By political expedience, Spain continued to dominate the islands. As a consequence, the number of Spanish immigrants swelled year after year reaching to a point where they became a problem to the local government.

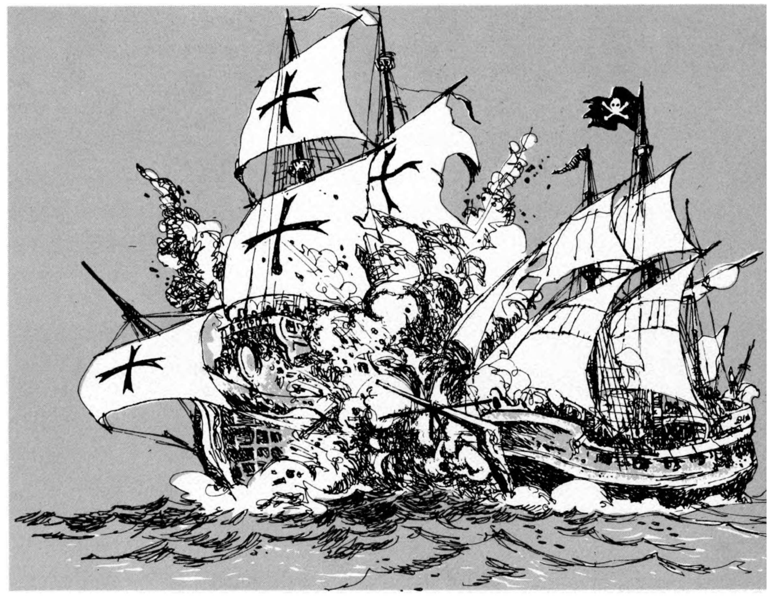
Supporting the local government, especially the residents, became a financial burden to the near-bankrupt economy of mother Spain. Mexico, at that time a Spanish dominion, was therefore required to send part of its tribute to the Spanish government in the Philippine islands.

The Galleons

To augment the support from Mexico, the authorities in Manila developed a system of trade, whereby goods from the Philippines and the neighboring countries were shipped to Mexico on ocean going vessels — **the galleons.** The goods were either sold for gold, or exchanged with merchandise to be sold in the islands and other Asian countries. Thus, the Galleon Trade developed, and with it initiated the Philippines' bid for foreign trade with the West.

The Philippines' proximity to the neighboring Asian countries encouraged the government authorities to develop Manila as a center port and intensify shipments to Acapulco.

For two and a half centuries, the galleons came and went, pursuing a long and lonely voyage between two distant ports. The continuity of the line was to be interrupted only from time to time by shipwreck, typhoon, or piracy. The galleons were the



richest ships in all the oceans, and were the most sought after prize by pirates.

English pirates captured four — the **Santa Ana** in 1847, the **Encarnacion** in 1709, the **Covadonga** in 1743, and the **Santisima Trinidad,** the largest ship of the time, in 1762. The Dutch too, took an unrecorded number of galleons.

Galleon Trade Operations

The Galleon Trade was intended primarily to earn proceeds for the benefit of the Spanish government in the islands, its officials, the clergy and other Spanish citizens.

A certain amount of loading space is alloted to a citizen depending on the capacity of the ship available for the voyage that year. The volume of space available for cargo in the galleon was divided into equal parts by a committee, or **junta,** appointed for that purpose. Each equal part is called **pieza,** and for each **pieza** a **boleta** (ticket) or certificate of ownership is issued. Thus each person's proportion of loading space was expressed in terms of boletas.

As to the eligibility requirements for **boleta** recipients, a law in 1593 decreed that the loading space should be divided among all Spanish citizens in the islands — proportionate to their wealth — in order that everyone might share in the advantage and profit of the traffic. Every **boletero** was, in a sense, a galleon trader with license to ship.

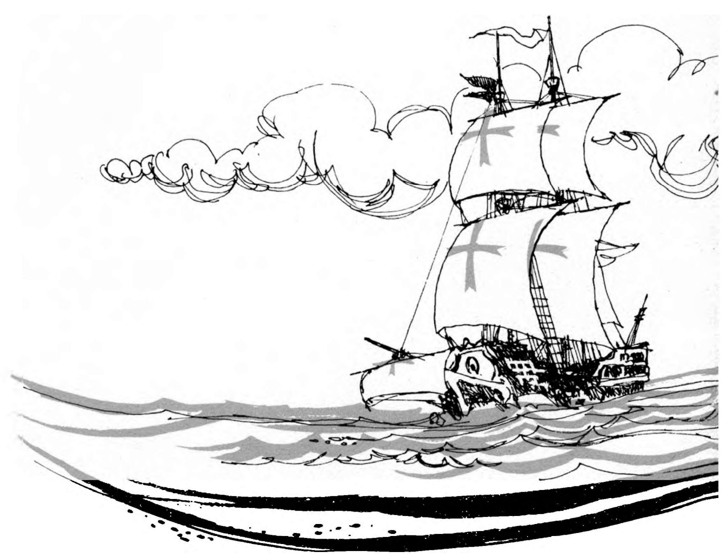
As always, where money is involved, corruption creeps in — and the galleon trade was not spared. To put it mildly, it became a nest of fraud and corruption.

Francisco Leandro de Vianna, a critic of government operations at that time, observed that "brazen corruption attended the junta" and he denounced the whole business of boleta-distribution as the root of rampant graft which the authorities seemed to ignore, if not altogether tolerated.

Favoritism and self-interest made mockery of laws that regulated the trade. An association of Spanish merchants, many of whom belonged to the governor's circle of friends and family, created a **consulado** (monopoly) which ushered a radical change in the galleon trade operations by fully controlling the galleon's activities, giving the islands its first taste of an anomalous syndicate.

The early decades of the Galleon Trade saw a number of Spanish residents in Manila actively trading with Mexico on their own account. It was not very long before the **monopoly** edged them out by cornering all loading space. In some instances, some shippers needed more loading space, forcing them to buy from the monopoly at excessive rates. On the other hand, some **boleteros** who did not have enough shipments, had to sell out to the monopoly at ridiculously low prices.

The price of the boletas depended on certain factors: the results of transactions with the Chinese, the prospects for a profitable sale in Mexico, the quantity of ready money in the islands, and the total loading space available in the year's galleon



as well as a number of **boletas** for sale. Usually, each **boleta** cost from ₱125 to ₱200.

Among those who profited excessively from the system were the administrators of the **obras pias.** The **obras pias** was a charitable institution run by the religious orders that superintend religious and charitable work. But instead of charitable work, the funds were loaned out to aspiring galleon traders at high interest.

Historians point out that a large percentage of Spanish immigrants to the Philippines were poor and idle in their own country. Upon reaching the Philippines, they suddenly turned rich and prosperous — thanks to the Galleon Trade.

But then, the system deteriorated; it was shot with anomalies which led to its end. The last of the galleons sailed into port in 1815. Manila was opened to foreign trade under the Royal Decree of September 6, 1834, finally bringing to a close over two and a half centuries of the Galleon Trade. Soon, the ports of Cebu, Iloilo, Pangasinan and Zamboanga were also opened to foreign trade.

Whether the Philippines profited or not in the galleon trade traffic, it is more important that this trade formally opened the ports of the country to the West — for other European countries and America — to more formal trade relations, the economic legacy succeeding generations, including ours, experience today.