China, The Ming, and the Silver Trade (Excerpts)
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The story of silver in China is interesting and has been misunderstood for a long time. From 1500 to 1800, Mexico and Peru produced something like 85 percent of the world's silver. During that same period at least a third and some people would say over 40 percent of all that silver eventually wound up in China. Now what was going on there and what does it mean? The Europeans of course were not shipping the silver to China as an act of donation or charity. They were getting goods in return, such as silk, porcelain, and later especially tea.

The large volume of silver that was going there and the volume of other goods that must therefore have been coming back illustrate the dynamism of the Chinese economy. Silver supported the staggeringly large export sector. This is interesting for many reasons because it invalidates one of our stereotypes of China: that China turned its back on the sea and was not interested in the outside world.

Instead, we see massive foreign trade, which was attested to by all the silver coming in. So, then the next question becomes, what did they want all this silver for? What were they doing with it? The main thing they were doing with it is monetizing it. They were making it their money supply.

For coincidental geological reasons, China simply has very little in the way of precious metals: not much gold, virtually no silver, reasonable amounts of copper but not massive amounts. However, the huge Chinese population, something on the order of a quarter of humanity for most of the time since we've had decent records, developed an unusually dynamic, commercially sophisticated economy, which needed a medium of exchange: money. And that posed an enormous problem, which the Chinese solved in the Song dynasty by inventing the world's first paper money.

This again is one of the signs of early modernity: that they managed to find a medium of exchange that was extraordinarily cheap to produce. Paper money cost very little, but it required a certain technological sophistication, such as good printing. And again, it required social institutions: paper money is only as good as people's willingness to trust it.

For a couple hundred years, China had a paper currency that worked quite well, centuries before anybody else had it. This didn't last, however, because when later dynasties, the Yuan and then especially the early Ming, got into fiscal crises, they did what many governments in many moments have done: they tried to solve the problem by printing money, and they undermined confidence in it.

And once burned, people are shy for a long time. It will be centuries before they trust paper money again. It meant that this huge commercial economy had to be supplied with something else, with coinage. And what China turns to, for a whole series of reasons that are imperfectly understood, is silver.