Inequality in International Trade: On the Role of the Rate of Foreign Exchange in Allocating Real Value Added and Income among Nations

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Inclusive growth formed the general national objective, and was expected to happen after the destructions of World War II, in those countries, in particular, which had just won their independence from colonial rule. Actually, however, global inequalities were not only persisting, but even rising, instead. The disappointment called for an explanation, which was offered by two renouned scientists from the United Nations, Raoul Prebish and Paul Singer, advancing the hypothesis of "inequality in international exchange": New developing countries had to pay relatively more for their imports than the old industrialised ones, and earned less for their exports. Terms of trade were disadvantageous for the first, and advantageous for the latter.
The theory could not be proven, at the time, because of lacking data. The data situation has greatly improved, today, especially in measuring the purchasing power parity of a particular national currency in relation to its trading partners. Using these new data, which include global tables such as the WIOD data set, the paper explains in what sense the early hypothesis can be validated, and an implicit transfer of value added and its possible impact on economic growth may be discerned to exist among G-20 countries.