The ability to have large exports and to obtain favourable terms for them is of great importance for all developing countries. It is of particular importance to countries who want to use international trade as an engine of growth. If the proceeds of exports are substantial and stable, developing countries may be able to satisfy their needs of imports of capital goods for development largely out of these proceeds, and thus to keep down the volume of borrowing.

Favourable and stable terms of trade are, therefore, a matter of utmost importance to developing countries. The position of developing in respect of their export proceeds and terms of trade is traditionally precarious and vulnerable. Their exports consist mainly of primary commodities. Primary commodities, especially industrial raw materials, are subject to particularly violent swing in prices. The cyclical movements of the terms of trade, therefore, have attracted the greatest attention. These fluctuations are of such a nature as to be almost incompatible with steady development policies and steady rate of investment in developing countries; and should, therefore, be eliminated as far as possible. Besides cyclical fluctuations, the secular movements of the terms of trade over long periods have also occasioned the developing countries great anxiety.
It is in this setting that we are making an attempt in this study to examine the effect of changes in India’s terms of trade on her economic development. We are interested in analysing the movement in terms of trade because it indicates the distribution of gains from trade between India and her trading partners. A study of terms of trade can render valuable help in increasing our understanding of the issues involved in the structural change in India’s trade sector.

We have, therefore, examined the movement in net barter and income terms of trade. We have also tried to find out the role that the terms of trade played in the transfer of resources to India. In other words, we have attempted to verify Prebisch-Singer 'secular stagnation hypothesis' that the deterioration in the terms of trade of the developing countries has resulted in the transfer of resources from the developing to the developed economies.

Our study covers a period of three decades, 1949/49 to 1978/79. There are three reasons for selecting this period. First, the period is long enough to help us in reaching broad conclusions. Second, enough data is available for this period. Third, the period is recent enough to acquaint us with probable trends in the future. The year of the commencement of the period has been chosen because we wanted to begin our study after the post-war era. The selection of the last year was dictated by the fact that when we started our study the data was available only up to that year.