

**Ethnic Diversity and Productivity Change of Furniture Industry
in Arusha town, Tanzania**

Preliminary version

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Abstract

This study uses Tanzanian enterprise-level data to investigate the productivity change of industrial cluster-based enterprises and the determinants, such as the knowledge spillover, of the productivity change. The productivity change is measured by Malmquist TFP index and its decompositions of technical efficiency change and technological change. The results obtained from the analyses of 234 workshops located in five furniture sub-clusters in Arusha town of Tanzania show that technical efficiency had progressed rapidly in Arusha during 2004-2007 period, while technological efficiency had dramatically declined in the same period. However, the ethnic diversity is positively associated with technical efficiency change, implying that the knowledge spill-over effect generated inside ethnic group was not significant, and did not contribute to the technical efficiency.

JEL: L26, O55

Keywords: Co-ethnic network, knowledge spill-over effect, Malmquist TFP index, and Africa.

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