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# Wine industry in the Bekaa Valley, Lebanon

Food-processing industry as a basis for community dynamics and local socio-economic development

A case study

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## This Paper

The idea behind this paper is to counter traditional thinking on economic and social development that considers development as dependent byproduct of macroeconomic policies led by governments, or as a sole byproduct of entrepreneurial dynamics on the micro level. The idea we are defending here is that the "Community"<sup>1</sup> as defined by German sociologist Ferdinand Tönnies, (a tighter and more cohesive social entity) is a context where the "social" and "economic" are less separated and where the spatial dimension becomes more significant. This context could be an adequate analytical framework and a tool for regional development in the context of a developing country like Lebanon.

In this context several questions arise: Could the concept of "community" be considered as an appropriate analytical framework of socioeconomic dynamics in the context of developing countries and how? What tools, does a community approach provide for regional development in Lebanon? What role do the existing tangible and intangible resources in the community play in the development process?

In order to find answers to these questions, we shall employ the wine industry in the Bekaa Valley in Lebanon as a case study.

After a brief background, we shall attempt, in the first section of this paper to present the socio-economic developmental situation in the Bekaa Valley. In particular, we shall focus on the agricultural sector, and examine the failure of both private and public sectors in developing this economic activity, and analyze the repercussions thereof.

In the second section, we shall demonstrate how the wine industry not only grew, in spite of this failure, but in fact outpaced most other local agricultural activities and industries as well.

Section three will examine the "community organization" surrounding the vine tree and the wine industry in the Bekaa Valley. This aspect goes beyond the economic factor, as important as this factor is in organizing the sector's activities, to touch upon social, geographical, cultural and historical aspects too.

## Background: The Lebanese Economy in a nut shell

At the end of its civil war (1975-1990), Lebanon was left facing three major conflicting challenges: a massive and costly reconstruction program, economic recovery and macroeconomic balance. To achieve this, the government embarked on an ambitious policy of economic reform including industrial and agricultural modernization, improving the investment climate and opening internal markets and integrating into the world economy. The overall objective was to regain Lebanon's position as a strong economic engine in the Levant and reclaim its title as "Switzerland of the Middle East."

Twenty four years later, the country is still facing several problems that hinder its development. The following statistical information provides a glimpse of the enormity of those problems.

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<sup>1</sup> **Gemeinschaft** — often translated as "community" (or left untranslated) — refers to groupings based on feelings of togetherness and on mutual bonds. Note here that some theorists may use the term "territory" in translation of the French concept "territoire".

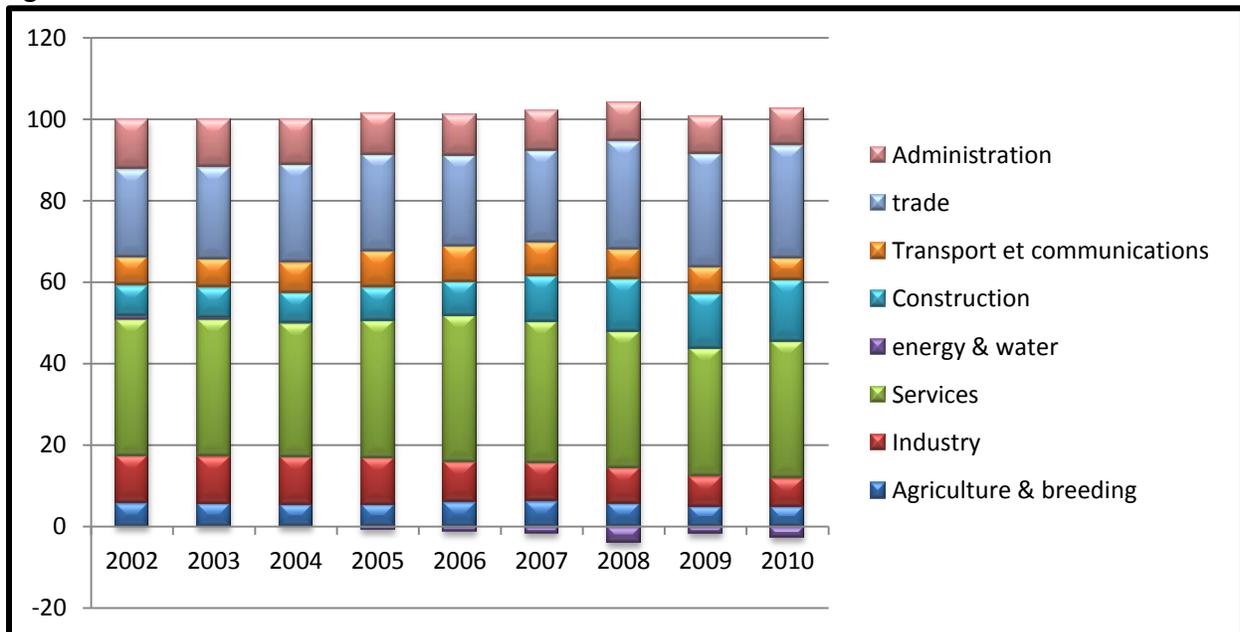
In 2012, trade deficit stood at \$16.3 billion and payments deficit at \$6.7 billion. Between 2011 and 2012, budget deficit to GDP ratio climbed from 6.1% to 9%. In 2013, debt-to-GDP ratio reached 143%. The production of goods is chronically and persistently weak. In The GDP share of agriculture in 2012 was 6.1%, industry was 20.5%, while the service sector (tourism, banking & finance, administration, trade) accounted for 73.4%, (Figure 1).

Lebanon’s geopolitical position at the center of one of the world’s bloodiest conflict zones does not help its economic outlook. There are enormous political and security challenges that threaten its stability and that of its productive sectors. As an example, and due to the Syrian conflict, the number of tourists visiting Lebanon declined by 40% in 2013 compared to 2010.

Our case study, the wine industry in the Bekaa Valley is part of the agricultural sector in Lebanon. This sector employs about 8% of the workforce in the country but it faces many difficulties. First of all, only 55% of Usable Agricultural Area (UAA) is used, and often ineffectively. This, among other reasons, causes Lebanon to import about 82% of its food needs. The diversity of imported food is quite remarkable and places the Lebanese agricultural products at a competitive disadvantage. In 2013, total food imports were valued at \$ 3.4 billion while export did not exceed 757.291 million. (Figure 2)

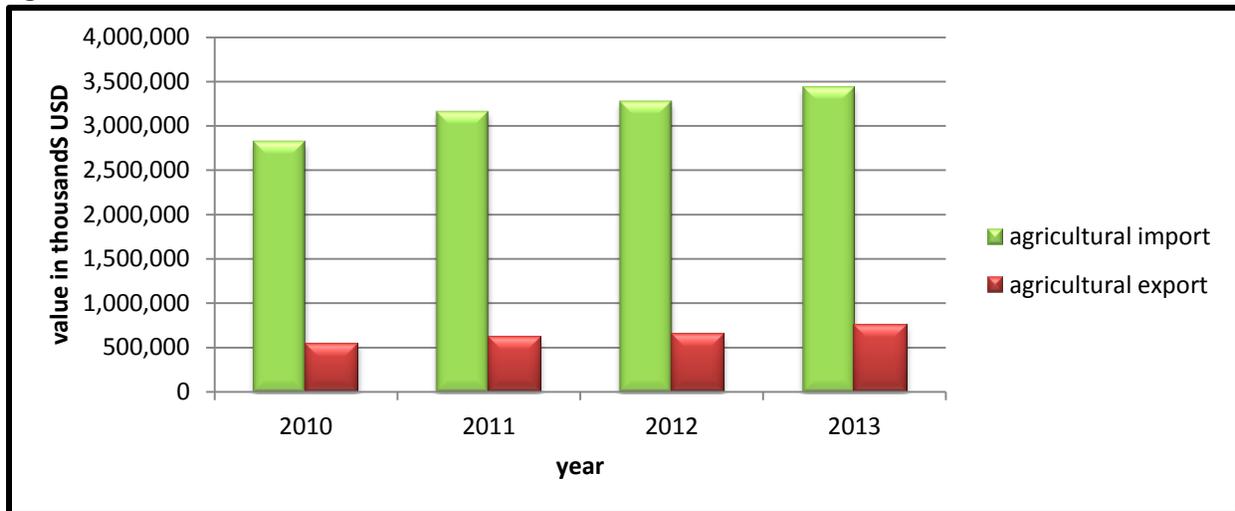
Agriculture receives only 1 % of the national budget; at the same time the private sector financing and bank loans to the agricultural sector are quite insignificant (0.9% of total loans granted in 2010 according to the Central Bank of Lebanon).

Figure 1:



Source: economic accounts of Lebanon (2002-2010)

Figure 2:



Source: Lebanese customs (2014).

Regarding industry, it operates under very adverse conditions: lack of electricity and other energy sources; insufficient raw materials and almost entirely imported and paid in foreign currencies; difficulty finding skilled labor; old and obsolete equipment. These circumstances increase production costs, making Lebanese products less competitive on regional and international markets. In addition Lebanese industry suffers from lack of institutional financing (bank loans) and investments.

Nearly 8 % of the Lebanese population lives in extreme poverty. About 300.000 individuals are unable to have access to basic nutrition, earning a salary of \$ 2.4 per day. The UNDP estimates that nearly one million Lebanese (28.5% of the total population) live in conditions of normal poverty earning \$ 4 per day. This poverty is selective; the absolute poverty line (\$ 2.4 per day) is less common in Beirut (less than 2% of the population). It is also rare in the region of Mount Lebanon (between 2% and 5% of the population). The phenomenon is accentuated in the Bekaa and the South, where poverty is estimated at between 10% and 12% of the population, and in the North where it reaches 17%. This focuses on severe regional disparities making of the South, North and Bekaa zones of poverty, a problem exacerbated by the negligence of public authorities, (lack of basic infrastructure in these areas : road networks , electricity, water, hospitals , public schools ... ). As a result of this gap between regions and the geographical distribution of productive activities on the Lebanese territory, the country is divided between center and periphery, in terms of development.

## I. The Bekaa on the margin of socio-economic development

Located near the Syrian border, the Bekaa is considered a peripheral region of Lebanon. In 1920 the French government attached the Bekaa, the South, the North and Beirut proper to the political entity of Mount Lebanon (established in 1861) to form the present-day Lebanon. Before the creation of the State of Greater Lebanon in 1920, parts of the Bekaa were administered by Syrian cities.

The Bekaa occupies an area of 4000 km<sup>2</sup>, covering 38% of the Lebanese territory. Lying on a plain between two mountain ranges, Mount Lebanon to the west and the Anti-Lebanon to the east, the Bekaa has an overall Mediterranean climate with a more arid tendency in the north. It is crossed by two rivers journeying in the opposite direction, the Litani to the south and the Orontes (Al Asi) to the north. These two rivers create a fertile area quite suitable for agriculture.

In a country with 80% urbanization level, and an economy centered on the service sector (tourism, finance, trade), the Bekaa - a region marked by poverty and the preponderance of rural activities - seems to be at the margins of economic activity and development.

Considered as part of the breadbasket of the Roman Empire, the Bekaa is an area of agricultural specialization producing cereals, tobacco, potato, beet, cotton, hemp, fruits and grapes. The UAA in Lebanon amounted to 231.000 ha in 2010, down about 6% compared to 1998. The distribution of UAA per Governorate shows the predominance of the Bekaa (43%). Therefore the economic policies regarding agriculture concern this “community” in the first place.

### **1- The French mandate:**

Since the collapse of the Ottoman Empire, the structure of the Lebanese economy didn't change much. It has been always focused on services sector at the expense of industry and agriculture. During French mandate (1918-1946) Lebanese economy was based on ports-related activities such as trade and transit of imported goods (Edmond Chidiac, 2002). The most remarkable issue during this period was the Syrian-Lebanese negotiations regarding the separation of the “Common Interests”<sup>2</sup>. These negotiations were very important since they called into question the already divergent economic orientation of the two new countries. While Syria privileged primary and secondary sectors through protectionist economic policies, Lebanon chose to center its economy on services sector through outward oriented policies. The definite break between Lebanese and Syrian economies took place on the 15<sup>th</sup> of March 1950. Ever since, the Lebanese economic policies became even more services oriented.

### **2- Between independence and civil war:**

Between 1950 and early 1970s, and in spite of the urgent needs of this sector, funding of the Lebanese agriculture was characterized by its inadequate growth, as well as arbitrary and unorganized agricultural credit distribution. “La Banque de Crédit agricole, industriel et foncier (B.C.A.I.F.)” founded in 1954, is the primary agricultural credit institution in Lebanon. Its action is characterized by inadequate resources, lack of dynamism and a chronic lack of plans, studies and research in the agricultural section (Riad F. Saade, 1973). *“Throughout the 1950s and all through the early 1970s, the Lebanese economy grew rapidly and cumulatively. This high growth was characterised, however, by severe imbalances between sectors, regions, classes and sects. Agriculture in Lebanon did not grow to its full potential and was constrained by insufficient government attention and encouragement and by an adverse macroeconomic*

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<sup>2</sup> Since both current states of Syria and Lebanon were under the French Mandate as one entity, many public service institutions were unified such as the Customs, Gendarme, Ecole Militaire and the currency.

*regime that promoted services and trade at the expense of productive activities.*"<sup>3</sup> In 1974, on the eve of the civil war, agriculture contributed 9% to GDP, employed 20% of the labour force and sustained a rural population that stood at 14% of the total population.

### **3- The civil war:**

The civil war (1975-1990) witnessed the expansion of cannabis plantations in the Bekaa. This activity had started way before that due to the concentration of economic activities in the capital and major cities and the negligence of public authorities of this part of the country. The area devoted to cannabis in the Bekaa in 1929, amounted to 200 ha, in the late 1940s, it reached 2.000 ha and 6.000 ha in 1965 (Darwich S., 2004). This fast expansion led the public authorities to implement in 1966 a project that aimed to substitute cannabis with sunflower. This decision led to a remarkable decrease of cannabis plantations (500 ha in 1971). But the positive impact of this policy didn't last for long. First the complex bureaucratic procedures and the incapacity of the government to deliver sunflower plants and pesticides contributed to the failure of the project between 1971 and 1975. With the beginning of the war in 1975, and the spreading of anarchy, the cannabis plantations covered 15 to 20% of cropland in the Bekaa. By the end of the war, Lebanon was the third largest producer of cannabis according to the 35th session of the Committee on Narcotic Drugs, held in Vienna from 6 to 15 April 1992 (Darwich S., 2004).

### **4- After the War:**

After the war the public authorities implemented another project to limit cannabis expansion but this time the substitute was sugarcane. This project was also condemned to failure. The former cannabis farmers had no choice but to practice an illegal activity or to leave their hometowns. The Bekaa witnessed several episodes of armed confrontations between cannabis growers and Lebanese armed forces.

Nowadays farmers cultivate several other products such as fruits, vegetables, olive trees, grapevines and others. The local production is threatened by the competition of agricultural products mainly coming from the neighboring countries (Syria, Jordan, Egypt ...). Similarly, government trend towards even greater openness to regional and international markets without any serious policy to protect local production harms agriculture and encourages farmers to leave or sell their land and move to the outskirts of cities, especially Beirut, where they live in precarious social conditions. The lack of attention of the government and private investors towards the agricultural cluster of the Bekaa reduces job opportunities especially for young graduates who find no interest of staying in their hometowns. This raises the problem of the rural exodus, the Bekaa -an area exceeding one third of the total surface of Lebanon- is now gathering only 13 % of the Lebanese population.

The Bekaa Valley has a very large agricultural potential, which is only partially exploited (50%) and in a primitive way. The years after the Civil War were marked by a sort of revival of economic activity. On the one hand, we noticed an improvement in the real estate sector,

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<sup>3</sup> Atif Abdallah Kubursi: "Lebanon's Agricultural Potential: A Policy Analysis Matrix Approach", McMaster University and Econometric Research limited, p. 1.

which is a double-edged sword. The construction stimulates the development of the region but at the same time the lack of control and planning from public authorities (central and local), leads to random construction in the plain at the expense of Usable Agricultural Area (UAA). On the other hand, the recovery is manifested by an increase in investment in the food-processing industry, including wine which is the subject of this paper.

## **II. Wine industry: a spectacular renaissance**

Grapevines are not a new phenomenon in Lebanon. Vines and wine industry first developed in the east Mediterranean countries six thousand years ago. The Phoenicians transported wine through the Mediterranean to Europe. The Bacchus Temple in Baalbek stands in testimony to the history of wine in the Bekaa valley.

Under the Ottoman Empire wine production and trade were banned for four hundred years except for religious purposes. This fact allowed the Jesuits to keep the industry alive. In 1857 they founded “la maison Ksara” in the town of Ksara near Zahle, Bekaa. In the same period Francois-Eugene Brun, a Frenchman who was hired by an Ottoman company to build Beirut-Damascus road, founded the winery Domaine des Tourelles in 1868 in Chtaura (Bekaa). Then Domaine Wardy was founded in 1893 in Zahle (Bekaa). After the WWI, and with the collapse of the Ottoman Empire which was followed by the French mandate, wine industry was revived.

The presence of French soldiers and diplomatic delegations developed a significant local market. In addition the French brought a diversity of French grape varieties to Lebanon. Between 1920 and 1940, the existing wineries knew a spectacular growth and three new wineries were founded; Domaine Nakad (1923), Château Musar (1930) and Clos Saint Thomas (1937). After the independence in 1943 and before the beginning of the civil war in 1975, service sector was more attractive for investments than agriculture and industry. During the civil war only one courageous project saw the light, Château Kefraya (1979). The real renaissance of wine industry began in 1997. Today the number of wineries in Lebanon exceeds 43; almost 50% of them are located in the Bekaa valley.

### **1- Wine Industry in the Bekaa: a local activity**

*“The pure theory of location, according to Engländer, is the general theory of “local conditionality” within an economy. Any given entrepreneur, in choosing the site at which to produce or render services, considers the various supply prices existing in the various localities for the inputs that he might possibly employ.”<sup>4</sup>*

Geographic, climatic, demographic and economic characteristics of the Bekaa play a key role in the development of wine production in this region. A mixed soil of limestone and clay, a gap of 15°C between day and night, the Bekaa ensure good climate conditions to the development of

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<sup>4</sup> ISARD Walter, “Location and Space-Economy: A General Theory Relating to Industrial Location, Market Areas, Land Use, Trade and Urban Structure”, Chapter 2, p.31. PUBLISHED JOINTLY BY The Technology Press of Massachusetts Institute of Technology AND John Wiley & Sons, Inc., New York, Chapman & Hall, Ltd., London, 1956, Digitized by the Internet Archive in 2010 with funding from Lyrasis Members and Sloan Foundation .

vines. On the other hand the two rivers of Litani and Orontes make the Bekaa an agricultural cluster which attracts investors through low supply prices of agricultural products, proximity that reduces transactions costs, the existing agricultural atmosphere which makes possible fast and free exchange of know-how and professional information and the fact that the Bekaa is a basin for agricultural manpower.

### 1.1- Wineries:

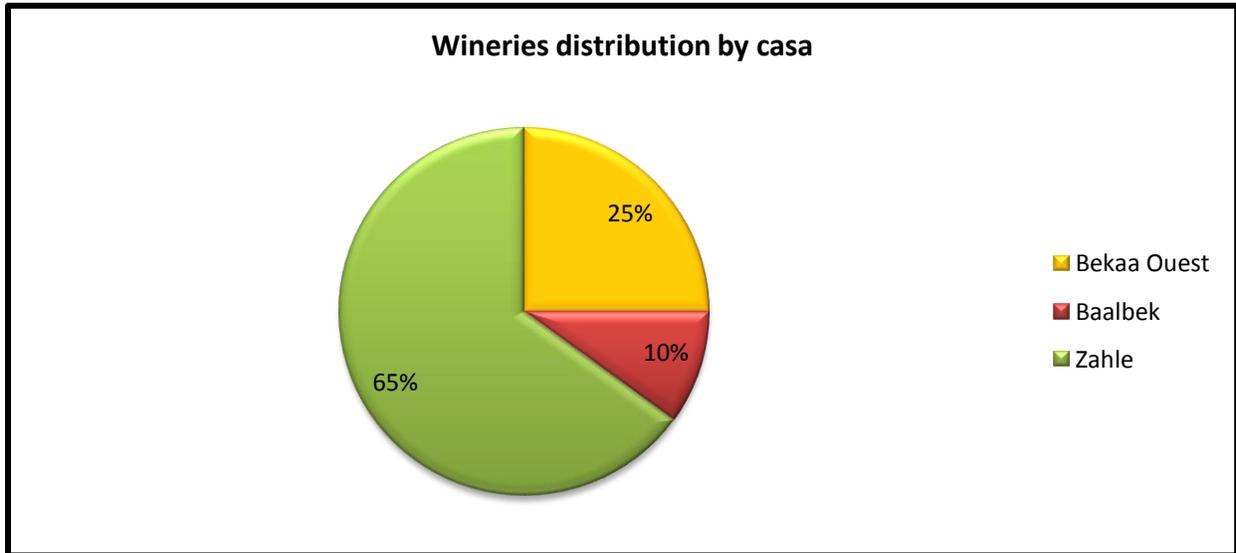
The Bekaa valley encompasses 50% of Lebanese wineries which produce 7.700.000 bottles (75cl) per year equivalent to 74% of the global Lebanese production of 10.500.000 bottles per year (2013). Wineries are for the most located in Zahle. Some wineries are also present in Baalbek and West Bekaa (Table 1, Figure 3). 67% of the owners are from the Bekaa and in 74% of cases they have family relations. 75% of owners somehow chose the wine industry to take over a family business. In some cases the original family business would be vineyards cultivation or arak production or even trading grapes going back through two or three generations.

Table1:

|    | <b>Winery</b>                 | <b>Location</b> | <b>Casa</b> |
|----|-------------------------------|-----------------|-------------|
| 1  | Château Barka                 | Barka           | Baalbek     |
| 2  | Coteaux d’Heliopolis          | Deir El-Ahmar   | Baalbek     |
| 3  | Cave Kouroum                  | Kefraya         | Bekaa Ouest |
| 4  | Château Kefraya               | Kefraya         | Bekaa Ouest |
| 5  | Château Qanafar               | Kherbet Qanafar | Bekaa Ouest |
| 6  | Château Marsyas               | Kefraya         | Bekaa Ouest |
| 7  | Reserve Ammiq                 | Ammiq           | Bekaa Ouest |
| 8  | Domaine Cortbawi <sup>5</sup> | Jdita           | Zahlé       |
| 9  | Domaine de Baal               | Hazerta         | Zahlé       |
| 10 | Domaine de Mas Hélios         | Jdita           | Zahlé       |
| 11 | Domaine des Tourelles         | Chtaura         | Zahlé       |
| 12 | Domaine Wardy                 | Zahlé           | Zahlé       |
| 13 | Château Ka                    | Chtaura         | Zahlé       |
| 14 | Château Khoury                | Hazerta         | Zahlé       |
| 15 | Château Ksara                 | Ksara           | Zahlé       |
| 16 | Château Nakad                 | Jdita           | Zahlé       |
| 17 | Château St Thomas             | Kab Elias       | Zahlé       |
| 18 | Coteaux du Liban              | Hawch El Oumara | Zahlé       |
| 19 | Héritage                      | Kab Elias       | Zahlé       |
| 20 | Massaya                       | Taanayel        | Zahlé       |

<sup>5</sup> Domaine Cortbawi was founded before 1990 but in the time it was only producing arak.

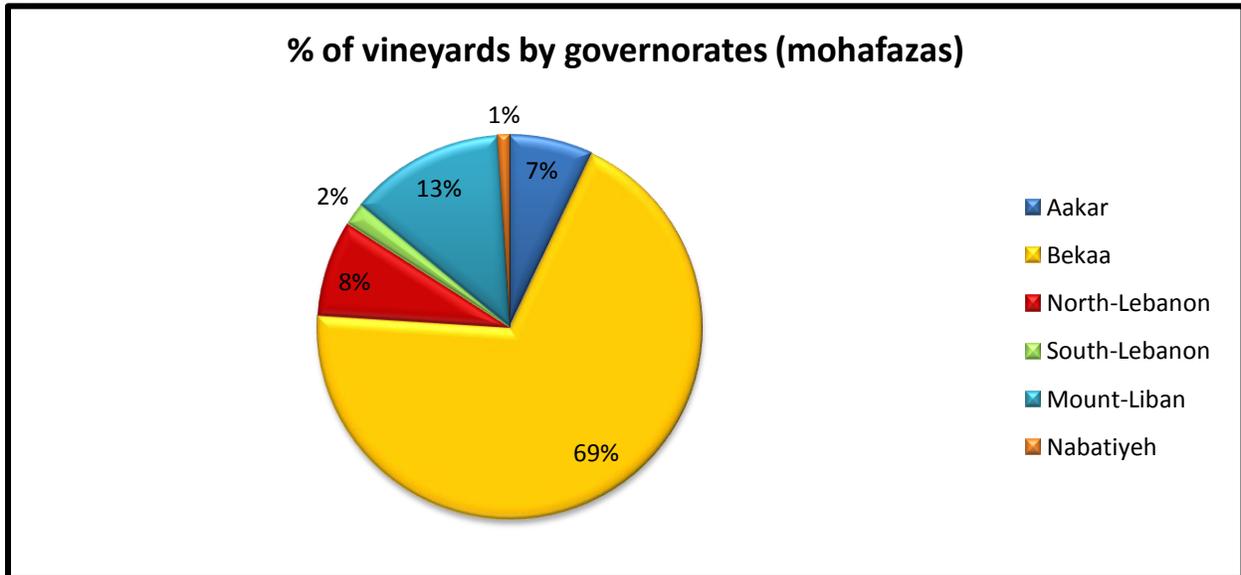
Figure 3:



### 1.2- Vineyards:

The total vineyard area in Lebanon is 10.609 ha with 70% devoted to “table grapes” with grapes destined for wine production stand at the equivalent of 3.183 ha. Bekaa comprises 69% of the total vineyard area (2196 ha). Graph 4 shows the distribution of vineyards in the different governorates (mohafazas) of Lebanon.

Figure 4:



The area of 72% of the plots is less than 1 hectare. Table 2 shows the distribution of vineyards in percentage according to their sizes.

Table 2:

| Vineyards area                | % of total area |
|-------------------------------|-----------------|
| Vineyards ≤ 1 ha              | 72.38806        |
| Vineyards between 1 & 10 ha   | 19.40299        |
| Vineyards between 10 & 20 ha  | 0.746269        |
| Vineyards between 20 & 100 ha | 6.716418        |
| Vineyards > 100               | 0.746269        |
| <b>total</b>                  | <b>100</b>      |

The vineyards are managed by four types of managers:

- Independent winegrowers<sup>6</sup>. (mostly located in West Bekaa and Zahle)
- Independent winegrowers, members of a cooperative (Coteaux d’Heliopolis) that provides them with technical support, marketing assistance and training to ensure good vineyards management. (100% located in Baalbek)
- Wine producers<sup>7</sup>.
- NGO

Wine of the Bekaa is 100% made of Bekaa grapes. Fifty years ago the majority of the workforce of the West Bekaa engaged in raising livestock. Lack of water and irrigated plots didn’t help residents of the West Bekaa to cultivate their lands. With the establishment of Château Kefraya in 1979 the owner of the winery Mr. Michel de Bustros brought vines from France and distributed them to locals. At the time, the company bought all the production of the village of Kefraya and provided the know-how, agricultural products and machinery to winegrowers. Lack of water is not an obstacle for growing vines; the sloped shape of the land combined with a soil rich in limestone and clay in addition to convenient climate helps the development of vineyards in this region. Today the village of Kefraya provides grapes to many other wine producers not only in the Bekaa but in the whole country. After the Kefraya village vineyards were spread in the whole West Bekaa (Ammiq, Jeb jinnin, Kherbet Qanafar, Mansoura & Tal Dnoub), the area of vineyards in the West Bekaa exceeds 500 ha today.

In Baalbek it was almost the same weather and soil conditions. During the war and even before it was the region that developed the most cannabis plantation as we mentioned earlier. The first vineyards was planted in 2000 by Dr. Sami Rahmeh who founded the cooperative Coteaux d’Heliopolis that counts today around 200 winegrowers from different villages in Baalbek (Aynata, Bechwat, Btedde, Chnifa, Deir el Ahmar, Mcheirfeh, Yammouneh & Zrazir). Many of these winegrowers were in prison for growing cannabis. We shall note here that what the government failed to do in order to substitute cannabis, the “community” somehow succeeds

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<sup>6</sup> By winegrowers we mean the people who cultivate vineyards but do not produce wine

<sup>7</sup> By wine producers we mean people who produce wine. They might be winegrowers at the same time but not necessarily.

doing it. Today many wine producers started to invest in Baalbek such as Chateau Ka. Vineyards cover almost 250 ha in the region.

## **2- National and international orientation:**

Even though wine production is a locally based activity this doesn't mean that it's a closed activity developing in self-sufficiency; it's the exact opposite. One of the important indicators that measure the success of local based activity is its national and international orientation. *"Local and international become, then, the two poles of a new dialectics of development: the firm is then oriented to the local dimension (to turn into account the stock of techno-scientific and cultural and professional knowledge) and to the external dimension (looking for stimuli and provocations for the innovation, the productive differentiation, to organize new networks of exchanges and collaborations)."*<sup>8</sup>

Wine industry in the Bekaa is nationally oriented in different ways. *"However, the optimal location for production does not necessarily coincide with the optimal location for consumption."*<sup>9</sup> The Bekaa consumption of the wines produced locally, does not exceed 2% to 3%, of its total production which accounts for 50% of the Lebanese wine market.

This fact forced producers to have their commercialization and marketing offices outside the Bekaa and further near the consumption regions especially Beirut and Mount-Lebanon. These regions benefits from the localization of part of the wine activity through job opportunities created. Furthermore the national orientation of wine activity is manifested through the localization of some wine related activities outside the Bekaa such as printing houses and label makers. Finally wine producers constantly take part of exhibitions on the national level to promote their wines.

Regarding international orientation, 50% of local production is exported (figure 5). Except grapes and some fertilizers the majority of inputs are imported (table 3). Almost all wineries hired to start up their businesses foreign experts especially from France, Spain and Italy. All machinery is also imported; contrariwise storage equipment that was 100% imported is now partially made in the Bekaa. Finally wine producers also take part in international salons and exhibitions.

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<sup>8</sup> GAROFOLI G. (1993): *"Economic development, organization of production and territory"*, In: Revue d'économie industrielle, Vol. 64, 2<sup>nd</sup> trimestre 1993, pp.22-37.

<sup>9</sup> Op. cit ISARD Walter, (1956)

Figure 5:

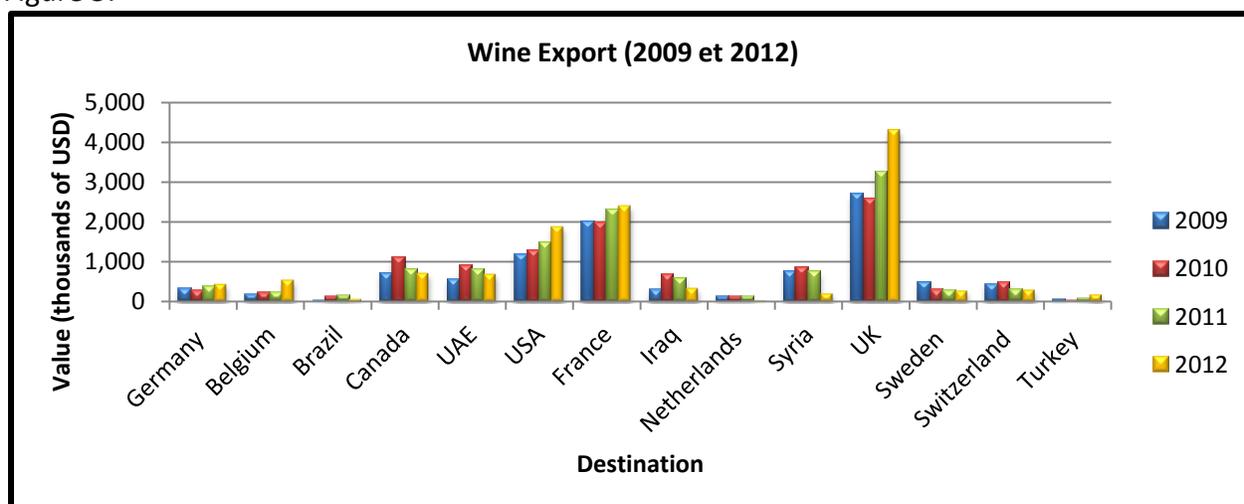


Table 3:

| Input import in 2013 (thousands of USD) |              |               |              |           |
|---|--------------|---------------|--------------|-----------|
| Country                                 | Bottles      | Cork stoppers | Barrels      | Caps      |
| Germany                                 | 10           | 0             | 1            | 0         |
| <b>KSA</b>                              | <b>3,978</b> | 0             | 0            | 0         |
| Belgium                                 | 115          | 0             | 0            | 0         |
| Bulgaria                                | 198          | 0             | 0            | 0         |
| China                                   | 223          | 1             | 1            | 0         |
| Denmark                                 | 0            | 1             | 0            | 0         |
| Egypt                                   | 2,024        | 0             | 0            | 0         |
| UAE                                     | 29           | 0             | 0            | 0         |
| Spain                                   | 0            | 41            | 0            | 0         |
| USA                                     | 3            | 0             | 0            | 0         |
| <b>France</b>                           | <b>1,045</b> | <b>49</b>     | <b>1,077</b> | <b>17</b> |
| Greece                                  | 82           | 0             | 0            | 0         |
| Hungary                                 | 0            | 0             | 17           | 0         |
| Italy                                   | 1,331        | 0             | 1            | 0         |
| Kuwait                                  | 199          | 0             | 0            | 0         |
| <b>Portugal</b>                         | <b>0</b>     | <b>1,453</b>  | <b>1</b>     | <b>0</b>  |
| Syria                                   | 88           | 0             | 0            | 0         |
| Moldova                                 | 10           | 0             | 0            | 0         |
| UK                                      | 68           | 0             | 0            | 0         |
| Turkey                                  | 53           | 0             | 0            | 0         |
| <b>TOTAL</b>                            | <b>9,456</b> | <b>1,545</b>  | <b>1,098</b> | <b>17</b> |

### III. Communal organization of production: a new axis for development

*“Paradoxically, the enduring competitive advantages in a global economy lie increasingly in local things - knowledge, relationships, and motivation that distant rivals cannot match”.*<sup>10</sup>

Localization of wine industry in the Bekaa goes beyond the abundance of natural resources and the existing agricultural cluster in the region. In addition to these two factors wine industry benefits of the advantages and opportunities that the “community” of the Bekaa offers in terms of economic externalities, history, social organization, *industrial atmosphere* and localized networks. *“Local specificities are mainly based on localized networks among firms and also on specific relationships between economic structure and the environment and the local “milieu””*<sup>11</sup>.

Economic theoreticians have for so long ignored spatial aspects of economic development and considered geography as a passive portion of nation, over which various economic transactions take place. Development was considered as *a wonderland of no spatial dimensions (ISARD W. 1956)*. In the best case, localization of productive activities would be considered significant component insofar as it reduces transactions costs. *“The location of production is an obvious feature of the economic world”*<sup>12</sup>. A firm would be localized where tangible local resources such as land, labor, capital and transport are cheap. But empirical observations and the multiplication of cases in different countries (technology in Silicon Valley, wine cluster in California, fashion shoe companies in north Italy, “la troisième Italie”, nanotechnology in Grenoble ...) showed that space embodies more aspects than the only low transactions cost. This new interpretation of space is due to the emergence of the “community”. *“In these new interpretations space assumes the distinguishing feature of territory; it becomes a strategic factor of development opportunities and of its specific characteristics.”*<sup>13</sup>

Wine industry in the Bekaa could be considered as a local productive system formed by a number of small and medium firms. According to *Garofoli*, such a system has specific structural characteristics.

- 1. A remarkable productive specialization at the local level and an important production of the local system that covers a significant part of national or even international production of a specific product.**

The Bekaa gathers 50% of Lebanese wine makers, 70% of vineyards and several input suppliers such as pesticides, equipment, agricultural materials suppliers. The “community” puts together various industries and sectors related to wine production cycle and produces 74% of national wine production. On the international market the Lebanese wine production in general is still slight and targets especially the Lebanese Diaspora. The Bekaa presents two different levels of local productive specialization classified by regions:

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<sup>10</sup> PORTER M.E. (1998): *“Clusters and the New Economics of Competition”*, Harvard Business Review, November / December 1998, p. 77.

<sup>11</sup> GAROFOLI G., Op.cit,

<sup>12</sup> KRUGMAN P. (1995): *“Development, Geography and Economic Theory”*, Massachusetts Institute of Technology Press, Cambridge, Massachusetts, p. 33.

<sup>13</sup> GAROFOLI G., Op.cit,

- High level of specialization in West Bekaa and Zahle.
- Low level of specialization in Baalbek

This classification is due to “seniority” of the practice of the activity that differs from one region to the other.

**2. The high *horizontal integration* of production caused by a high level of division of labor between firms that gives rise to very close input-output relations.**

The versatility of manpower within every firm makes vertical integration limited. On the other hand, division of labor especially between wine producers and winegrowers induces a high level of horizontal integration on the local level.

This characteristic would be more significant in systems where a very large number of small firms practice complementary activities such as textile or mechanic activities. In our case the division of labor is limited to wine producers and winegrowers and other complementary input suppliers. Having intense input-output relations requires the presence of larger diversification of important input suppliers within the community such as cork stoppers, barrels and bottles’ suppliers. In the Lebanese case in general this is almost impossible especially cork stoppers and barrels that need special raw materials. On the other hand even though producing such materials locally is impossible, we are witnessing today the increase of mass import of cork stoppers by some local trader to buy them later on the local market.

**3. The “*plurality of protagonists*” and the lack of a leader or dominant firm.**

This characteristic is partially compatible with our case. The “*plurality of protagonists*” does exist in the Bekaa but this does not prevent monopolistic behavior or dominance of some firms. The gap between the entrances of different firms onto the market gave some of them certain advantages like acknowledgment and consumers trust. However the fast growth of new arrivals will sooner or later fulfill this gap.

**4. A remarkable specialization of production at the level of the firm and plant.**

As a result of specialization, knowledge accumulates over time and facilitates the introduction of new technologies.

**5. The transformation of the knowledge of each individual actor into the “*common economic heritage*” of the area and the increase in the “*face to face*” relationships between economic “*actors*” which increases the overall efficiency of the local system.**

In such systems secrets do not take long before they reveal due to the existing industrial atmosphere where knowledge spreads in the air. Due to geographical proximity actors meet each other constantly and exchange almost on daily basis, multiple information on *outlet markets, alternative technologies, new raw materials, new commercial and financial techniques* as well as “*savoir-faire*”. In addition the common interests of actors make transfer of information a primary objective. For example any illness in one of the vineyards is contagious

and may be a disaster for the whole system which makes spread of such information a primordial issue for all actors.

**6. *The high level of skills of workers in the area, as a result of a historical sedimentation of knowledge on the applied technologies.***

This is what A. FERGUENE calls “*dynamique d’apprentissage*”. The historical presence of wine production in the Bekaa increases manpower skills in the whole “community” as well as the transfer of “savoir-faire” through generations. In addition the agricultural cluster of the Bekaa makes of almost every resident a farmer.

**We can add to these characteristics, the complex tissue of relationships between local actors that combine competition and cooperation at the same time.**

In any business we can rarely find cooperation between rivals. The relationship between them is driven by competition, economic interests and the race to gain market shares. One of the added values of the community is that it ties between different economic actors, rivals or not, profound relationships that drive them to cooperate and help each other beyond competition. Common culture, history, concerns, difficulties and problems in addition to face to face relationships make these actors share more than market and commercial connections. Over time develops an awareness that working towards common interests achieves individual ones. This is what’s called communal governance or local governance. However that does not mean that competition and conflict of interests does not exist in such systems. (Unfortunately we don’t have enough space to develop these ideas in this paper)

**Conclusion:**

The value of space in economic theory was first put forward by Alfred Marshall at the end of the nineteenth century. Geography as a determinant factor for economic development has known its success in the 70s of the twentieth century, led by Italian theorists. This success is due to the emergence of “community” as a strategic factor in development. While this emergence has first occurred in developed countries, “community” seems to be a particularly relevant concept that helps analyzing development opportunities in less developed countries. Political, economic and institutional problems in the South encourage local communities to react and take action to improve their living standards. “Community” with what it embodies of historical, cultural, economic and social seems to be the most appropriate scope in this mobilization.

Geographical proximity, natural resources and built ones, social capital, and other tangible and intangible factors are tools offered by the community which ensure its development.

Economic specialization is one of the natural outcomes of a “community”. It’s like manners, habits, beliefs, lifestyles that automatically develop with the evolution of the “community” over time and depending on the factors surrounding this development. The practice of wine activity in the Bekaa is not the product of chance. It’s a selective choice made by “the community” of the Bekaa considering its composition and the resources it provides. This activity creates a local

economic dynamism reflected by income generation, employment and new complementary activities. The continued growth of local productive system in Bekaa and its remarkable evolution raises new questions that need careful thought. How to maintain the system and ensure its viability and sustainability? How to govern the “community” and not allow conflicts of interest to prevail over cooperation?

Besides the system itself other problems emerge. In terms of demography, the Bekaa currently hosts a large number of Syrian refugees who disturb the demographic balance of the region. What are the repercussions of this situation, related to Syrian conflict that we cannot predict the duration, on the local productive system and the community in general? Similarly intensive and uncontrolled urbanization that invades Lebanon will it save the Bekaa and agriculture in general? Such problems go beyond the “community” will and we shall find solutions at the national level.

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