How does the economic polarization between EU-adjacent western Ukraine and war-devastated eastern territories reshape Kyiv's domestic political coalition, and does a peace deal that permanently cedes resource-rich industrial zones to Russia alter the balance of power between urban technocrats and provincial factions?

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Executive Summary

The economic polarization between EU-adjacent western Ukraine and war-devastated eastern territories, coupled with a peace deal ceding resource-rich industrial zones to Russia, is reshaping Kyiv's domestic political coalition by significantly diminishing the influence of traditional provincial oligarchs and entrenching the dominance of urban technocrats. Evidence suggests this shift is driven by the destruction of eastern industrial assets, the centralization of international reconstruction financing under Kyiv's control, and the reversal of pre-war decentralization reforms, which collectively weaken provincial factions despite widespread public opposition to territorial concessions.

Key Findings

Economic Polarization Weakens Provincial Factions and Centralizes Power

The war has created a stark economic polarization, devastating eastern territories while fostering growth in western Ukraine, which has fundamentally altered the balance of power. Before the full-scale invasion, the Donbas region was Ukraine's industrial heartland, contributing 25% of total industrial production and 14% of GDP in 2013 [3]. However, war-related destruction reached $170 billion by early 2025, concentrated heavily in frontline regions like Donetsk and Kharkiv [5]. This devastation structurally weakened traditional provincial factions, with prominent oligarchs like Rinat Akhmetov losing major industrial assets in Mariupol and occupied Donbas, thereby diminishing their political influence [10]. As the CEPA article notes, "Russia's occupation and destruction of eastern industrial regions devastated the foundations of several oligarch empires," and

"Rinat Akhmetov, previously Ukraine's richest man, lost major industrial assets in Mariupol and the occupied Donbas territories, for example" [10].

Concurrently, Kyiv has consolidated fiscal and administrative power. In 2024, Kyiv generated 39% of all city-level revenues [5]. Small towns saw their revenues collapse by as much as 45% in 2024, while regional governments experienced a 26% drop in own-source revenues and a 25% decline in state transfers [5]. Financial transfers from the central government to major cities increased by 48% since 2022 [5]. This fiscal centralization means Kyiv's political coalition is increasingly sustained by its management of international donor funds, with grants and loans for the 2025-2027 period having been projected to reach $92.5 billion, of which $74.6 billion was structured as loans [6].

Conversely, western Ukrainian oblasts have experienced economic growth. General fund revenues increased by more than 30% in 2022 across Lviv, Zakarpattia, Volyn, Khmelnytskyi, Chernivtsi, Ivano-Frankivsk, and Zhytomyr oblasts [15]. By 2024, high growth rates persisted in Zakarpattia, Volyn, and Vinnytsia regions [17]. In 2025, Lviv, Ivano-Frankivsk, and Ternopil oblasts recorded the fastest municipal revenue growth at 18-21% [16]. However, this growth is absorbed into a centralized architecture overseen by Kyiv rather than driving permanent decentralization [5].

Peace Deal Entrenches Technocratic Dominance by Decapitating Provincial Factions

A peace deal permanently ceding resource-rich industrial zones to Russia would further decapitate traditional provincial factions and entrench the dominance of urban technocrats. The permanent loss of eastern industrial assets, which contributed significantly to Ukraine's pre-war economy [3], severs the traditional economic base that provincial factions relied upon for political influence [10]. This shift empowers urban technocrats aligned with international recovery frameworks, who can prioritize internationally driven policies such as privatization and foreign investment [4]. The immense funding for post-war reconstruction, estimated at $486 billion under the RDNA3 framework, creates new avenues for politically connected business interests that favor urban technocratic circles over broad-based provincial development [8, 10].

Wartime centralization has also enabled new elite networks to emerge, particularly from the defense-industrial sector and international donor-financed reconstruction projects [10]. These new elites, while different from traditional oligarchs, are politically connected businesspeople who, without strengthened rule of law and transparency, risk reproducing patronage patterns [10]. This dynamic further reinforces a centralized system where power is anchored to resource allocation rather than regional autonomy.

Centralized Control Over Reconstruction Funds Overrides Regional Claims

The concentration of donor-backed reconstruction financing under Kyiv's technocratic management is bypassing provincial fiscal needs, entrenching urban dominance. The war accelerated a severe geographic shift in resources, with financial transfers from the central government to major cities increasing by 48% since 2022, while rural communities stagnated or declined [5]. The redirection of military tax to the national budget further undermined prior decentralization reforms [5]. The massive influx of international aid, which was projected to reach $92.5 billion for 2025-2027 [6], is managed through technocratic channels that prioritize privatization, fiscal austerity, and foreign investment [4].

Ukraine holds significant reserves of critical minerals such as graphite, lithium, titanium, and rare earth elements [2, 7]. However, international donor conditionalities on reconstruction loans are expected to override regional resource claims in favor of centralized technocratic management [4]. This means control over these resources will be managed under centralized recovery frameworks rather than serving as an independent fiscal lever for western regions [5].

Reversal of Decentralization Reforms and Legislative Centralization

The historical track record of Ukraine's 2014-2022 decentralization reforms demonstrates that wartime fiscal centralization has effectively overridden prior provincial autonomy, and the permanent loss of eastern tax bases will likely entrench Kyiv's technocratic authority. Pre-war decentralization reforms were widely regarded as a success [5]. However, the full-scale conflict triggered a rapid reversal.

Between 2023 and 2025, specific legislative amendments and cabinet decrees formally centralized provincial budgetary control. Military administrations, operational in 214 municipalities as of December 2025, gained authority to transfer funds from local budgets to the armed forces and manage municipal property, shifting decision-making from elected local bodies to a single military administrator [11, 12]. The government reinstated reverse grants in 2025, requiring 189 territorial community budgets and 6 regional budgets to contribute UAH 14.9 billion to the state budget, partially overriding temporary wartime fiscal autonomy [12]. Public investment management reforms, including the "Roadmap for Reforming the Public Investment Management System" adopted in December 2023 and a law passed on January 16, 2025, linked public investment management to medium-term budget planning, mandating local plans comply with the state development strategy [14]. Additionally, the Verkhovna Rada approved changes to the 2025 state budget that redirected Hr.8 billion ($198.3 million) in bank profit tax revenues from Kyiv's local budget directly to the state budget's general fund [11]. The Cabinet also approved a draft law in June 2025, increasing overall expenditure by UAH 397.5 billion (approximately $9.52 billion) primarily for defense, with specific central allocations to local budgets for student meals and military lyceums, giving Kyiv direct control over these areas of local spending [13, 1].

Public Resistance Neutralized by Centralized Control

While public opposition to territorial cession is strong, with most Ukrainians opposing the formal transfer of sovereignty over occupied regions [4], and 60% considering it unacceptable to transfer control of all of Donbas to Russia [4], martial law and centralized mechanisms are largely sufficient to neutralize this sentiment before it translates into decisive political leverage. Kyiv introduced a unified national television news operation, which consolidated many of the country's broadcasters and limited the ability of provincial oligarchs and factions to shape independent political narratives [10]. As the CEPA article states, "The war also weakened the oligarchs' media power" and "Kyiv introduced a unified national TV news operation... which consolidated many of the country's broadcasters, and limited the ability of competing oligarch-owned channels to shape political narratives" [10].

Furthermore, wartime fiscal centralization has severely undermined the financial autonomy required for sustained provincial defiance [5]. Consequently, while public resistance offers provincial factions a platform for moral opposition and localized administrative influence, the combination of centralized media control and fiscal dependency prevents this sentiment from overcoming the technocratic elite's monopoly on financial leverage and administrative control.

Implications

The economic polarization and a peace deal ceding eastern territories imply a significant and likely durable shift in Ukraine's domestic political landscape towards a more centralized, technocratic model. Kyiv's urban technocrats, backed by international donors, will wield substantial power through their control over reconstruction financing and administrative levers. This will likely lead to policies prioritizing privatization, fiscal austerity, and foreign investment, potentially at the expense of broad-based provincial development [4].

While traditional provincial oligarchs have been largely decapitated, new elite networks emerging from the defense-industrial and reconstruction sectors could reproduce patronage patterns, albeit within a more centralized framework [10]. The widespread public opposition to territorial concessions remains a potential source of political instability, offering a moral mandate for nationalist and anti-establishment provincial factions [4, 9]. However, Kyiv's centralized media control and the fiscal dependency of local governments currently limit the ability of these factions to translate public discontent into decisive political leverage [5, 10]. The long-term stability of this technocratic dominance will depend on its ability to manage public sentiment, address deepening provincial fiscal crises, and ensure legitimacy in a post-war environment.

Limitations and Caveats

The available research provides a strong directional understanding but has limitations. Specific details regarding which international donors hold veto power over reconstruction fund allocation, and the exact percentage of pledged aid disbursed directly to Kyiv's ministries versus provincial budgets, are not specified. Similarly, the research lacks specific names, affiliations, and privatization shares for key defense procurement elites and nationalist faction leaders who have emerged as counterweights. While critical minerals are identified, their specific locations in western Ukraine, estimated market values by 2030, and explicit donor loan conditionalities on regional revenue retention are not detailed. The long-term political consequences of a peace deal are inherently predictive and subject to evolving dynamics, making definitive conclusions challenging.

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