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?

August 9, 2026 | SnugLab Research

Executive Summary

The economic polarization between EU-adjacent western Ukraine and war-devastated eastern territories is reshaping Kyiv's domestic political coalition by centralizing power around urban technocrats, primarily through fiscal control over reconstruction capital and municipal transfers. A peace deal that permanently cedes resource-rich industrial zones to Russia would likely strengthen this centralized technocratic coalition by removing a significant fiscal liability and allowing Kyiv to reallocate resources to more stable western and central regions. However, this consolidation comes at the cost of Ukraine's long-term economic autonomy, as the loss of critical mineral and industrial export capacity would deepen Kyiv's reliance on Western financial support and conditionalities, potentially creating a brittle state managing a fragmented economy.

Key Findings

Fiscal Centralization Empowers Kyiv's Technocrats Over Provincial Factions

Kyiv's domestic political coalition functions primarily as a technocratic-provincial fiscal bargain, with power measured by control over reconstruction capital and municipal transfers rather than formal institutional authority [1]. The war has eroded traditional provincial oligarchic power bases, replacing them with new elites tied to the presidential administration and security services [10, 11]. This shift is driven by fiscal centralization: regional governments experienced a 26% drop in local source revenues and a 25% decline in state transfers, while financial transfers from the center to cities increased by 48% since 2022 [1]. Kyiv City alone generated 39% of all city-level revenues with only 8%

of the population, illustrating how economic gravity and control over capital dictate political influence [1]. The government has actively consolidated this power by clashing with and removing mayors in areas where its ruling party did not win local elections, explicitly targeting local clan networks [10].

Fiscal Decoupling of Western Ukraine Reinforces Central Authority

The fiscal decoupling of western Ukraine, driven by relocated private capital and EU-aligned investment hubs, structurally empowers Kyiv's technocratic coalition to bypass traditional provincial patronage networks. The war destroyed or suspended 70% of large enterprises in Kharkiv Oblast and caused a 70% drop in sales across eastern Ukraine [1]. This decimated traditional oligarchic influence, while power consolidated around the presidential administration and security services [10, 11]. Western regions like Lviv and Zakarpattia have absorbed displaced human capital and economic activity, with Lviv seeing a 23% increase in job vacancies and Zakarpattia a 55% surge by early 2024 [1]. Nearly 19,000 companies relocated their legal addresses to western oblasts after 2022 [1]. This fiscal gravity, combined with the redirection of the military tax to the central budget in 2023, further weakened provincial factions and enabled Kyiv to sideline smaller communities [1, 10].

Ceding Donbas Consolidates Kyiv's Veto Power but Increases External Dependency

If Russia permanently controls the resource-rich Donbas corridor, the resulting loss of export revenue and regional reconstruction leverage would force urban technocrats to rely more heavily on direct central grants to depopulated eastern municipalities, thereby consolidating Kyiv's veto power over provincial factional claims. Before the 2022 invasion, the Donbas accounted for 25% of Ukraine's industrial production and 14% of its GDP [4]. Russia now controls over $12.5 trillion worth of Ukrainian mineral and gas assets in these occupied provinces, including 56% of hard coal reserves and 50-100% of critical minerals like lithium, tantalum, and uranium [3]. Ceding these territories would strip Ukraine of vital export revenue and industrial capacity, making the state heavily reliant on foreign financial support [3]. This accelerates the wartime trend of fiscal centralization, which has already led to a 26% drop in local source revenues for regional governments and a 45% revenue collapse in small towns by 2024 [1]. As eastern municipalities face severe depopulation, their financial dependency on the central government deepens, allowing Kyiv to bypass traditional provincial patronage networks [1, 10, 11].

Post-2014 Decentralization Reforms Undermined by Wartime Centralization

The post-2014 decentralization reforms have been significantly undermined by wartime fiscal centralization, making provincial autonomy structurally fragile under centralized reconstruction financing. Historically empowered regional clans have seen their influence eroded as the war destroyed their industrial assets and centralized political authority around the presidential administration and security services [10, 11]. Regional governments experienced a 26% drop in local source revenues and a 25% decline in state transfers, while financial transfers from the center to cities increased by 48% since 2022 [1]. The redirection of the military tax to the central budget in 2023 further weakened community finances [1]. This erosion of local institutional capacity and shrinking service networks deepens financial dependency on Kyiv, risking the sidelining of smaller communities that were the core beneficiaries of decentralization [1].

Geographic Concentration of Aid and IDPs Fuels Technocratic Majority

The geographic concentration of internally displaced persons and foreign aid in western and central hubs is generating a durable pro-Western technocratic majority within Kyiv's governing coalition. Kyiv's dominance as a magnet for human and financial capital displaced from the east has been massively strengthened [1]. Western regions like Lviv and Zakarpattia have absorbed this economic activity, experiencing significant increases in job vacancies and attracting major foreign direct investment [1]. In contrast, eastern and southern municipalities face severe revenue collapses, with small towns seeing revenues drop by as much as 45% in 2024, leading to increased dependency on central government transfers [1]. This dynamic has undermined post-2014 decentralization reforms, making provincial autonomy fragile and sidelining smaller communities [1, 10]. However, this consolidation carries the risk of future fragmentation if reconstruction planning prioritizes privatization and Western conditionalities over targeted strategic investment in war-affected areas, potentially alienating eastern provincial representatives [1, 2, 10].

Ceding Donbas Strengthens Internal Cohesion but Weakens Policy Autonomy

When evaluating whether ceding the industrial Donbas strengthens or weakens Kyiv's long-term political cohesion, the removal of a chronically deficit-prone but socially volatile industrial sector outweighs the loss of critical mineral leverage that could otherwise constrain technocratic policy autonomy vis-Ã -vis European and American donors. The Donbas was already in economic decline pre-war and suffered catastrophic damage, with steel capacity cut by 80% [5, 9]. Permanently ceding this territory removes a chronic fiscal drain, estimated at $21.7 billion in reconstruction costs even before the 2022 invasion [8]. This allows Kyiv to reallocate resources to more stable, service-based economies in western and central Ukraine, accelerating the erosion of decentralization and reinforcing a centralized, urban technocratic coalition [1, 5, 6, 7, 10]. However, this consolidation comes at the expense of Ukraine's independent economic foundations. Russia controls over $12.5 trillion worth of Ukrainian mineral and gas assets, including critical minerals essential for green energy technologies [3]. The loss of these resources forces Kyiv to accept donor-driven reconstruction frameworks that prioritize privatization, fiscal austerity, and labor deregulation, thereby constraining the technocrats' ability to dictate domestic economic policy independently [2, 3].

Implications

The economic polarization between western and eastern Ukraine, exacerbated by the war, has fundamentally reshaped Kyiv's domestic political landscape. The shift of economic activity, human capital, and international aid to western and central hubs, coupled with the devastation of eastern industrial territories, has enabled a significant centralization of power within Kyiv's urban technocratic coalition. This coalition's cohesion is now primarily a fiscal bargain, relying on the central government's control over reconstruction funds and municipal transfers to maintain stability and bypass traditional provincial patronage networks.

A peace deal that permanently cedes the resource-rich Donbas industrial zones to Russia would further solidify this centralized power structure. While it would remove a substantial fiscal liability and allow Kyiv to focus resources on the remaining, more stable territories, it would also hollow out Ukraine's long-term economic independence. The loss of critical mineral and industrial export capacity would deepen Kyiv's reliance on Western financial support and conditionalities, potentially limiting its domestic policy flexibility and creating a brittle state managing a fragmented economy. This scenario risks alienating depopulated eastern provincial representatives, who would become increasingly dependent on central grants, potentially leading to future fragmentation if their needs are not adequately addressed within the centralized framework.

Limitations and Caveats

The long-term political stability of Kyiv's centralized technocratic coalition remains subject to reasonable alternative interpretations. While current evidence suggests consolidation, the potential for post-war populist movements or "Ukrainian Gaullism" challenging elite centralization exists [10]. The exact fiscal deficit projections for a post-cession Ukraine and the precise breakdown of international grants versus internal debt issuance are not fully detailed in the available research. Furthermore, the specific terms of Western conditionalities, such as detailed anti-corruption benchmarks or energy market liberalization timelines, are broadly described rather than explicitly itemized. The current parliamentary seat share of provincial factions, which could indicate their capacity for resistance, is also not specified. The long-term impact of civic activism and veteran networks, which are growing as less elitist forces, could further complicate provincial representation and challenge the technocratic dominance [2, 10].

Sources

[1] Ukraine Regional Realignments Wartime Postwar Reconstruction - carnegieendowment.org - https://carnegieendowment.org/research/2025/12/ukraine-regional-realignments-wartime-postwar-reconstruction

[2] The Political Economy Of Ukraine S War And The Politics Of A - internationalviewpoint.org - https://internationalviewpoint.org/The-political-economy-of-Ukraine-s-war-and-the-politics-of-a-coming-bad-peace

[3] The Mineral Wars - cirsd.org - https://cirsd.org/horizon-article/the-mineral-wars/

[4] [blog] Donbas Whats Ukraine Losing Industrial Hub Breadbasket Or Bo - russiamatters.org - https://www.russiamatters.org/blog/donbas-whats-ukraine-losing-industrial-hub-breadbasket-or-both

[5] Rebuilding Ukraine Pre War Trends And Post War Priorities Sh - ponarseurasia.org - https://www.ponarseurasia.org/rebuilding-ukraine-pre-war-trends-and-post-war-priorities-should-inform-the-process/

[6] Tony Wood Matrix Of War - newleftreview.org - https://newleftreview.org/issues/ii133/articles/tony-wood-matrix-of-war

[7] 261 Peace Ukraine Iii Costs War Donbas - crisisgroup.org - https://www.crisisgroup.org/rpt/europe-central-asia/ukraine/261-peace-ukraine-iii-costs-war-donbas

[8] Economic Challenges And Costs Of Reintegrating The Donbas Re - wiiw.ac.at - https://wiiw.ac.at/economic-challenges-and-costs-of-reintegrating-the-donbas-region-in-ukraine-p-5351.html

[9] [peer-reviewed] Article - sciencedirect.com - AUTHORS UNAVAILABLE - https://www.sciencedirect.com/science/article/pii/S0048733325001519

[10] Reformation Nation Wartime Politics In Ukraine - ecfr.eu - https://ecfr.eu/publication/reformation-nation-wartime-politics-in-ukraine/

[11] Ukraine New Unaccountable Elites - cepa.org - https://cepa.org/article/ukraine-new-unaccountable-elites/