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How Eastern Ukraine Is Adapting and Surviving: The Case of Kharkiv

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

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Eastern Ukraine does not differ much from the rest of the country; it mirrors the overall challenges of rule of law and captured governance. A study of the city and region of Kharkiv demonstrates how adaptation to the country's post-Maidan political and economic reality has been painful but rapid.

Kharkiv, the name of Ukraine's second-biggest city and the surrounding region, has a collective population of almost 2.7 million people. Four years ago, it nearly turned into a Russia-backed separatist enclave like neighboring Donetsk and Luhansk. The anti-government Russian Spring protests of 2014 were supported only by a minority of Kharkiv's citizens—as was the case in these neighboring regions. Nevertheless, pro-Russian views were more prevalent in Kharkiv than almost anywhere else in Ukraine besides the conflict-torn Donbas region. After Russia annexed Crimea in March 2014, a group of aspiring separatists unsuccessfully attempted to establish a Kharkiv People's Republic, but loyal special security troops from western Ukraine, with the support of the regional elites, prevented them from doing so. Kharkiv lived through a turbulent 2014 and 2015, with shooting incidents and explosions causing casualties on both sides of the political dividing line.

Most people in Kharkiv now have accepted the country's turn toward the West, even if they do not universally support it. Kharkivites have not necessarily changed their values, but they have adapted to new realities, rather like the Turbin family in Mikhail Bulgakov's famous novel *The White Guard* did in Kyiv during the chaotic times of the Russian Civil War. In a spirit of compromise, the majority of residents remains neutral when it comes to geopolitics. Pro-Russian sentiments are largely buried, but still smoldering beneath the surface. This is no small feat as Kharkiv's links with Russia are long-standing and substantial.

A pact between Kharkiv's regional elites and Kyiv's post-Maidan rulers ensures stability and loyalty but has also cemented the rule of a local overlord with a checkered past. The Security Service of Ukraine (SBU) has become the most powerful law enforcement agency and at times has resorted to extrajudicial violence against opponents to maintain stability in the region. The pact between President Petro Poroshenko and the regional elite may be a necessary evil, but it holds back the prospect of a political transition and reform. Decentralization reforms, as originally envisaged, have been distorted in Kharkiv and have reinforced existing misuses of power and related rent-seeking arrangements.

The conflict with Russia has ruptured the region's economic model. Before 2014, Kharkiv's close proximity to Russia, with the border just 40 kilometers (about 25 miles) away from the city, was a beneficial source of cross-border trade and people-to-people ties, but this proximity has since become a security concern. Once an international transportation and trade hub that benefited from its

frontier position, the region of Kharkiv has turned into a fortress, with a defensive wall being built on the border with Russia. Like elsewhere in industrial regions of eastern and southern Ukraine, Kharkiv has experienced an economic decline largely due to the loss of the Russian market.

A recovery is now under way in Kharkiv, fueled by a somewhat successful reorientation to new markets, increased military industrial demand, and export growth in the economy's services sector. However, people's incomes have not returned to pre-2014 levels, so the government has only lukewarm public support. Although the region is now less "fragile" than it was reported to be in 2015, Kharkiv's future depends on governance reform and serious investment, much like the rest of Ukraine. Facing these challenges, the region must find a way to invest in its core competences, namely to build on its educational, scientific, and economic potential. This mission requires more than adaptation and survival, but significant change is unlikely to occur as long as Kharkiv's current governing arrangement continues to prioritize stability and enable rent seeking at the expense of meaningful reform.

A Different Type of Security Threat

The protests in the winter of 2013–2014 against then president Viktor Yanukovych were hardly noticeable in Kharkiv, a city of 1.4 million people (see figure 1). Kharkiv's Euromaidan movement, which according to eyewitness accounts consisted of daily gatherings of about 200 committed urban activists and intellectuals near the statue of the poet Taras Shevchenko, was predominantly peaceful.[1] Pro-Yanukovych demonstrations, held near the statue of Vladimir Lenin, were similarly small. However, when Yanukovych escaped from Kyiv and tried to convene an assembly of deputies from the southern and eastern regions of Ukraine in Kharkiv on February 22, 2014, thousands of demonstrators took to the streets to express support for Ukraine's unity and opposition to separatism.

Setting aside some earlier incidents, bloody clashes between the two camps started on March 2, 2014, when pro-government supporters and outsiders from neighboring Russian regions (sometimes jokingly dubbed political tourists) installed a Russian flag on the building that houses the Kharkiv regional state administration. The city's Oplot Fight Club nurtured what are termed *titushky*—street fighters from sport clubs recruited by the government to foil the Euromaidan—but the number of pro-Russia activists was estimated to be 4,000 at most, according to one former regional official. On the night of March 14, 2014, a fight between radicals on both sides took the lives of two pro-Russian supporters. This skirmish included far-right activists from the Patriot of Ukraine, a

nationalist group established by Andriy Biletsky, who is now a member of Ukraine's parliament and who was formerly a commander of the Azov Battalion, a group composed of volunteers that fought in Donbas.

Figure 1. Map of Kharkiv

These looming tensions sowed divisions among the people of Kharkiv, many of whom wished to remain on the sidelines and stay loyal to their local community. An April 2014 poll indicated that 47 percent believed that the Euromaidan was a civic protest against corruption and dictatorship, while 42 percent stated that it was a coup against Yanukovych. The masses largely steered clear of active involvement in the protests organized by either side. As in Odessa—another city with a distinctive identity and highly prevalent Russian language usage, which Moscow had identified as a weak spot for

Ukraine—it turned out to be more important for Kharkiv's residents to be pro-Kharkiv than to be pro-Russia.

A group of pro-Russian activists proclaimed a short-lived Kharkiv People's Republic on April 6, 2014, just a few hours after their counterparts in Donetsk established a people's republic that remains intact today. The one in Kharkiv, however, was put down in less than two days due to the decisive actions of Ukraine's security forces, under the guidance of Ukrainian Interior Minister Arsen Avakov, a Kharkovite and former Kharkiv governor (2005–2010), and Stepan Poltorak, then acting commander of the Interior Forces (now Ukraine's defense minister), who is also a Kharkiv native. A loyal special forces unit from the city of Vinnytsia quickly forced the pro-Russian activists out of the regional administration building.

Another crucial factor was a timely shift of allegiance by Kharkiv's mayor, Hennadiy Kernes, a member of Yanukovych's Party of Regions and initially an opponent of the Euromaidan.[2] His change of heart came after a brief visit to Russia following Yanukovych's escape. Kernes has been in local politics since the early 2000s and is known for his craftiness, criminal past, and adaptability. He supported the Orange Revolution in 2005, then turned to the Party of Regions. Saving the city also meant preserving his personal fiefdom, as his assets would have been destroyed had the separatists taken over. In April 2014, just weeks after he switched sides, Kernes was seriously wounded in an assassination attempt, the motive for which remains unknown. As of August 2018, the ensuing criminal investigation has not yet concluded.

Separatist resistance to the new Ukrainian state authorities came in the form of sabotage, explosions, and shootings. The SBU reportedly foiled thirty-five of thirty-nine cases of terrorism, identifying twenty-three criminal groups with more than eighty participants. In February 2015, an improvised explosive device killed four people and injured at least nine people during a march commemorating the Euromaidan victims. Similarly, another explosion injured eleven people in November 2014 at a pub belonging to a volunteer who was helping the Ukrainian Army.

The separatist resistance in Kharkiv eventually died out. Even so, violence continued, mainly a side effect of an influx of firearms and explosives stemming from the war to the southeast. Kharkiv witnessed a series of explosions and shootings in 2017 that resulted in casualties, including two shooting incidents estimated to involve up to several dozens of combatants from voluntary battalions, including members of the Azov Battalion on both occasions.

Military installations were another source of risk. In March 2017, about 36,000 people were evacuated from the southern town of Balaklia after an munitions warehouse exploded in spectacular fashion, killing two civilians, injuring at least five people, and damaging more than 300 civilian houses. Admittedly, ammunition explosions occurred regularly all over Ukraine even before the conflict. The authorities have investigated four out of five such incidents that have occurred since 2014 (as of June 2018), as acts of terrorism or sabotage. The results of the final investigation into the Balaklia explosion remain secret. In the most recent such incident, in early May 2018, the same warehouse exploded again but caused no casualties; that conflagration was officially attributed to negligence.

Although things in Kharkiv have settled down, these violent incidents have contributed to a sense of insecurity and imposed significant human and social costs.

The Fallout of the Donbas Conflict in Kharkiv

Due to its proximity to the conflict zone in Donbas, the Kharkiv region became one of the main destinations for internally displaced persons (IDPs). It is difficult to gauge the total number of IDPs in Kharkiv, although some estimates provide a rough approximation. At the peak of hostilities in 2014–2015, various local officials estimated that their numbers might have ranged from 300,000 to 380,000. Schools, the job market, and medical facilities were put under severe strain, and prices spiked for rental housing, in which the overwhelming majority of IDPs reside, according to an NGO that assists such individuals in Kharkiv.[3] Kharkiv coped with the IDP challenge thanks mainly to the support of volunteer groups and international humanitarian organizations, and much less so due to state and local authorities. In 2017, only 36 percent of IDPs said they did not feel fully integrated into the Kharkiv region. Since the peak in 2014–2015, the number of IDPs has gone down. As of April 2018, about 123,000 IDPs are registered to reside in the region, yet many have unofficially returned to or else visit their previous homes frequently for family-related or economic reasons.

IDPs in the region of Kharkiv have experienced some of the highest levels of intolerance in Ukraine, paying the price for the pressure their arrival has placed on social systems and rising living costs. Unsurprisingly, IDPs generally do not like to identify themselves as such. Elderly people, single parents, and people with disabilities remain the most vulnerable. Their main concerns are housing and job shortages, due to their low incomes and the high cost of rent.[4]

In 2017, more than 12,000 registered combatants in the region received some form of state assistance. This includes both nationally and regionally administered social services and other programs for military personnel and their families. Despite this support, the need for assistance is much greater. Psychological rehabilitation, professional job training, and other services to help returning combatants adapt to civilian life are particularly insufficient. Overall, a chairman of a parliamentary committee on veteran affairs estimated that more than 1,000 Ukrainian combatants have committed suicide.

Impunity Instead of Justice

The Kharkiv branch of the SBU has played a key role in suppressing pro-Russian dissent. The state's approach to conflict management has too often involved (sometimes extrajudicial) violence and a tendency to renounce dialogue with moderate, nonviolent, pro-Russian activists; this approach may have been effective for establishing short-term stability, but it appears shortsighted in terms of producing lasting peace. In the absence of official statistics, human rights defenders estimate that more than 1,000 people have been detained for conflict-related reasons in the region since early 2014.[5] The majority of detentions occurred in 2014 and 2015, but some arrests have continued to be made in 2018. Human rights groups have documented grave human rights violations—including enforced disappearances, torture, ill-treatment, and arbitrary arrests; however, the state has denied these allegations, and no effective investigations have been conducted. The threat of armed conflict and terrorism has perversely made it easier for law enforcement personnel and the judiciary to justify heavy-handed tactics and cover for their own failures to deliver justice. Although this is a nation-wide problem, several cases in Kharkiv amply illustrate a continuous sense of impunity for human rights violations and a failure of the state to deliver justice. For instance, like their counterparts in other parts of Ukraine, the Kharkiv police are reluctant to prevent and to investigate radical right-wing groups for crimes against the lesbian, gay, bisexual, and transgender (LGBT) community. Moreover, there has been no progress toward convicting the perpetrators of the deadly violence in Kharkiv in 2014–2015. (Similarly, the state failed to ensure accountability for the killings of protesters at Kyiv's Euromaidan and the May 2014 tragedy in Odessa.) Lastly, no effective investigation has been conducted into allegations about Kharkiv's secret prison, in which detainees reportedly have been held incommunicado for up to two years.

One egregious example of how politics influences justice is the trial of Nelia Shtepa, the former mayor of Sloviansk and political opposition figure, who has been accused of separatism and

terrorism. Nearly twenty judges, facing political pressure to convict her, have sought to use a variety of pretexts to avoid presiding over the case. By contrast, a criminal case in Kharkiv against Mayor Kernes, a regime ally who was charged along with his bodyguards with the abduction and torture of two Euromaidan activists, was shut down by the court on the grounds that the prosecutors had continuously failed to attend hearings.

Even the new patrol police, which initially gave a boost to public confidence in law enforcement, has not managed to bring about change. Deficient legislation, limited training, and inadequate equipment have degraded the capacity and the professionalism of the new police force in Kharkiv, and the level of police violence has returned to pre-2014 levels.

The local SBU in Kharkiv has become the strongest law enforcement agency, and it operates without any mechanisms for meaningful supervision of its work. "Everyone can be silenced with a pro-Russian or separatist label coming from the SBU," asserted a local observer in an interview.[6] Against this backdrop of limited accountability, the public has exhibited at least some level of tolerance for state violence, as one in four Ukrainians accept the police's use of unlawful violence or even torture.

Neutrality as a Compromise

There are still pockets of support for Russia in Kharkiv, but with dissent silenced and the most radical activists jailed or driven out, pro-Russian sentiment has gone underground. Yet, according to a survey by the market research firm GfK, attitudes in Kharkiv toward the Donbas conflict are still divided: in 2017, one quarter of the population blamed Kyiv for the fighting, while another quarter held Moscow responsible.[7] The percentage of those blaming Kyiv decreased from 39 percent in 2016, but the proportion of those answering "hard to say" increased from 34 to 46 percent. It is possible that many may be simply afraid to voice their opinion.

More broadly, the outlooks of a plurality of people (45 percent) in the Kharkiv region remain closely aligned with those of people living in Ukrainian government–controlled parts of Donetsk and Luhansk in eastern Ukraine, favoring neutrality over foreign alignment. One quarter of the population (slightly more in the city of Kharkiv than the region as a whole) would prefer that Ukraine move toward Europe, while support for integration with Russia decreased from 20 percent in 2016 to a meager 7 percent in 2017. For Kharkiv's ordinary citizens, who remained largely inert during the Euromaidan, neutrality is a compromise, allowing them to take their time while adapting to the region's new reality.

Neutrality is a more natural option for a place like Kharkiv with a pronounced local identity. Kharkivites sometimes proudly boast to foreign visitors about having one of Europe's largest squares and Gorky Park. Kharkiv used to be a Soviet center of high-tech industry and science, and it holds what was Europe's first "complex of skyscrapers," the "constructivist" building known as Derzhprom, which was completed there in 1928. Some signs of this high-tech legacy remain today. Kharkiv's universities continue to produce thousands of information technology (IT) experts, although many of them are leaving the city for a better life elsewhere.

Kharkiv's historical links to Russia run quite deep. The city was established in 1654, the same year that Russia's colonization of Ukraine began following the Treaty of Pereyaslav between the Russian tsar and the Cossack hetman, Bohdan Khmelnytsky. Starting in the seventeenth century, the city became a Ukrainian intellectual, cultural, and industrial urban center in the Russian Empire. It served as the capital of the Ukrainian Soviet Socialist Republic between 1919 and 1934 and was the heart of the Soviet policy of Ukrainization in the 1920s and the early 1930s. Yet Kharkiv's Soviet legacy has a dark side, too, which the local ruling elites have preferred to keep obscured. The region's population suffered most intensely from the Holodomor, the Soviet government's orchestrated famine in 1932–1933, and Ukrainian intellectual elites concentrated in the then capital were brutally extinguished by the repression of the Great Terror.

Legitimacy and Loyalty in Kharkiv Politics

As long as the pact between local and national elites holds, a key reason why the region has avoided a local repeat of the pro-Moscow demonstrations of Ukraine's 2014 Russian Spring, Kharkiv will remain stable. Compared to Donbas, the region historically has not been rebellious and has shown loyalty to the central authorities. Local tycoons such as Oleksandr Yaroslavskyi, a banker and former owner of the Kharkiv football club, or Oleksandr Feldman, the owner of the massive Barabashovo Market, show no national political ambitions in contrast to the representatives of the Dnipro or Donetsk clans. The modus operandi typically employed by Kharkiv elites to influence Kyiv has not been to conquer it, but rather to incorporate themselves into it. For example, the late Yevhen Kushnariov served as the first mayor of the city of Kharkiv and later as the governor of Kharkiv region. He eventually became a head of the Presidential Administration under Leonid Kuchma in the late 1990s and was a key figure in the Party of Regions until his sudden death in 2007.

More recently, Arsen Avakov, a businessman from Kharkiv, has been a pivotal national figure. After the Orange Revolution in 2005, Avakov became the region's governor. He had an uneasy

coexistence with Kharkiv's then mayor, Party of Regions member Mykhailo Dobkin. In February 2006, Avakov was dismissed by then president Viktor Yushchenko for his ties to Yulia Tymoshenko, the Orange Revolution heroine who became a key Yushchenko opponent. A few years later, Avakov lost Kharkiv's 2010 mayoral election to Kernes, a Party of Regions member, by 0.63 percent after a dirty campaign. The following year, Avakov escaped to Italy after the Yanukovych regime charged him with abuse of power. He returned in 2012 after being elected to the parliament on the ticket of Tymoshenko's Batkivshchyna Party. After the Euromaidan, he became the interior minister and one of the most powerful men in Ukraine. In addition to Avakov, since the Euromaidan, two Kharkivites, media tycoon Boris Lozhkin and former Kharkiv governor Ihor Rainin, have served successively as the head of the Presidential Administration for Poroshenko.

As part of the post-Euromaidan pact, the Poroshenko bloc teamed up with Kernes, who distanced himself from the Opposition Bloc, the successor to the Party of Regions. Kernes, who is believed to control many assets in the city and is seen as a capable manager, won the 2015 mayoral elections with 65.8 percent of the vote, effectively mobilizing his voters amid rather low voter turnout of 45.6 percent. A poll from early 2018 suggests that as many as 75 percent of Kharkivites are satisfied with the mayor's performance, and there is a huge discrepancy between how many people positively assess the state of affairs in the country as a whole (13 percent) and in the city of Kharkiv (55 percent). Kernes's party holds an absolute majority in the city council and a plurality in the regional council (which it governs jointly with the pro-Poroshenko bloc that finished second in the latest election). Given that, close cooperation with Kernes looks to be a necessity for Poroshenko as he aims to keep the strategically important eastern city under control.

Locals in Kharkiv like to compare their city to Odessa rather than to Kyiv. Both cities generate significant income from their advantageous positions on key trade routes. Too often, these resources have been captured by corrupt local elites with alleged links to the criminal underworld who trade their loyalty to Kyiv in exchange for impunity to continue ripping off their hometowns for private gain. Essentially, these cities behave like self-contained city states where local opportunists meet basic expectations, like supporting Ukraine's territorial integrity and providing stability, in exchange for Kyiv turning a blind eye on their corruption.

In this local context, national reform has a limited impact and in some respects has had negative consequences. So far, decentralization reforms have produced only sixteen new united communities (a type of state administrative unit), covering approximately 8 percent of the region's population.[8] It is perhaps no surprise that carte blanche is being given to local authorities who support the Poroshenko bloc.

Decentralization in the Kharkiv region has been diverted from its original aim of granting ordinary people more accountability. Instead, it has allowed elites to capture of even greater share of public resources, as previous conflicts between the old pro-Russian elites have ended, even as local elites' pact with Kyiv further weakens accountability.[9] The increase in the local budgets of the newly formed communities that resulted from fiscal decentralization has not been matched with increased transparency, accountability, or civic participation. In the absence of independent local media and strong, grassroots civil society organizations, patronage networks are being reinforced rather than challenged. To attempt to mitigate this negative trend, international donors who support decentralization reform in Ukraine could try making assistance to newly formed communities conditional on local governments adopting democratic tools and practices (such as public hearings, participatory budgeting, and local council meetings that are open to the public) and other necessary capacity-building efforts.

A Diversity-Fueled Economic Revival

These governance challenges notwithstanding, Kharkiv's economy has done fairly well reinventing itself. Historically, Kharkiv was known as an industrial region hosting machine building, hydrocarbon extraction and energy production, and the manufacturing of chemicals, pharmaceuticals, food, drinks, and tobacco. Since the 1990s, industrial production has been in decline. Meanwhile, the region's finance and services sectors developed rapidly. As a result, the regional economy is now composed of a mix of service industries located in the city, with industrial capacity in Kharkiv and several other outlying towns. The region also has a vast rural agricultural sector and natural gas fields.

This economic diversity was vital to the region's ability to adapt and recover quickly after the conflict-induced crisis of 2014. Consequently, the economic fallout hit the Kharkiv region, Ukraine's third-largest regional economy after Kyiv and Dnipro, less severely than it did the country as a whole (see table 1). Kharkiv's gross regional product fell by 2.1 percent in 2014 and by 9.1 percent in 2015 (compared to declines of 32.9 percent and 38.7 percent in the same two-year period in the Donetsk region).[10]

Table 1. An Economic Comparison of Ukraine and Kharkiv Region (2014–2017)

	2014		2015		2016		2017	
	Ukraine	Kharkiv	Ukraine	Kharkiv	Ukraine	Kharkiv	Ukraine	Kharkiv
Gross Domestic Product/Gross Regional Product (annual percentage change over previous year)	-6.6	-2.1	-9.8	-9.1	2.3	2.1	2.2	n/a
Industrial Production Index (%, year over previous year)	89.9	94.8	87.0	88.2	102.8	105.7	99.9	106.1
Agricultural Production Volume Index (%, year over previous year)	102.2	103.1	95.2	97.2	106.3	106.6	97.3	90.1
Consumer Price Index (%, December to December of the previous year)	124.9	125.3	143.3	144.2	112.4	114.1	113.7	113.8
Unemployment rate* (% of economically inactive population aged 15–70)	9.3	7.8	9.1	7.1	9.3	6.4	9.4	6.1

Source: State Statistics Service of Ukraine, Kharkiv Regional Department of Statistics
* Rate based on the International Labour Organization methodology

By 2016, Kharkiv was already showing signs of recovery. Government procurement contracts after 2014 helped trigger a modest revival. The Kharkiv region also contains the second-largest (after

Kyiv) number of military-related enterprises (eighteen), including the Malyshev tank factory and the Kharkov Morozov Machine Building Design Bureau known for manufacturing the T-34 tanks used in World War II and the most modern Ukrainian tank, the Oplot. In addition, some large enterprises in Kharkiv have successfully managed to reorient their production to new markets, a trend that started before the conflict with Russia. Turboatom, a state-owned producer of steam and hydro-powered turbines, started selling its products to buyers in Africa, Asia, and Latin America. Meanwhile, the Kharkiv Tractor Plant and the Malyshev tank factory have managed to replace Russian suppliers and distributors with ones from Ukraine and from some EU countries.

Compared to the rest of the country, the economic rebound of Kharkiv has had some positive effects on living standards. Kharkiv officially has the lowest unemployment rate in Ukraine at 6 percent. The average salary in Kharkiv has increased albeit at a slower pace compared to the rest of country; that said, at around $275 per month, it is still a far cry from salaries in even the poorest EU countries.[11] The region's economic revival has had its limits, however, as 41 percent of households still receive subsidies for utility payments. Wages are going up due to a labor shortage caused by migration and insufficient adaptation by education facilities to market needs. Since 2014, Poland (40 percent) has overtaken Russia (25 percent) as the key destination for Ukrainian labor migration. Advertisements to lure workers to Poland and the Czech Republic are plastered all over metro stations in Kharkiv. There are direct flights from Kharkiv to Warsaw, Katowice, Milan, and Dortmund, and new routes from Kharkiv to London are being planned.

Although Kharkiv's universities produce thousands of IT graduates per year, brain drain has become an acute problem. Unlike less qualified labor migrants, many IT specialists are inclined to leave to secure a better and more peaceful future for their families rather than being motivated by purely financial incentives. The case of Kharkiv demonstrates that economic recovery and relative security are not sufficient to keep highly qualified workers in Ukraine, which has one of the fastest-shrinking populations in the world.

While Kharkiv is doing relatively well compared to the national average, it is still a long way from fulfilling its full potential. The region's proximity to a war zone and an aggressive neighbor undoubtedly have had damaging effects. But Kharkiv elites' obsession with clinging to power, their lack of strategic planning for the future, and their insistence on preserving rent-seeking arrangements are the chief reasons why the region's politics remain so shortsighted.

No Fronting in the East

Aside from its strong economic fundamentals, Kharkiv's transformation from a cross-border trading post to a frontline city on Ukraine's new eastern flank has left a heavy mark on the region's small vendors and traders as well as on its traditional people-to-people contacts. The Barabashovo Market has become a symbol of this city for which trade has always been a core part of its historical identity. After originally emerging as a neighborhood market in 1995, Barabashovo is the poster child of the post-Soviet transformation and is giving a new lease on life to many Soviet-era engineers and construction workers. With a square area of 75 hectares, the market employs about 55,000 people and has become one of the biggest wholesale trade markets in Eastern Europe.

When the war in Donbas broke out, the market lost most of its clients, including traders from Donetsk and Luhansk and shoppers from neighboring regions of Russia. Although it is iconic and is still huge, the market had few customers on a Saturday in June 2018 when the authors visited. The management of the market has a new plan to adapt by reorienting the market toward retail trade, despite the competition it faces from more comfortable malls, online retail platforms, and secondhand shops.

Russia remains the top foreign trade partner of the Kharkiv region, but it has lost ground since 2014. In 2017, the Commonwealth of Independent States (CIS) countries accounted for 40 percent of exported goods from the region of Kharkiv (including 25 percent to Russia), while EU countries received 20 percent. Regional imports have diversified since the late 2000s: in 2017, 31 percent came for EU members and 28 percent from the CIS region (with Russia having a 20- percent share). Although the EU's share of trade with the region of Kharkiv has grown due to Ukraine's free trade agreement with Brussels, Asian markets received a larger share of Kharkiv's exports than the EU did in 2017. Kharkiv's IT boom has had a positive impact on exports in the services sector. In 2017, information technology and telecommunications services comprised nearly 60 percent of all service exports from the Kharkiv region, with the United States being the top destination.

Kharkiv's real challenge is a lack of inward investment. Although the EU statistically accounts for about 70 percent of foreign investment in the Kharkiv region, in fact, much of this money is only re-exported domestic capital that likely has been laundered outside Ukraine.[12] Over half of these funds come from Cyprus and the British Virgin Islands, with Panama and Belize being other offshore locales that invest in the region.

Moreover, as a result of the armed conflict in Donbas and the near-complete breakdown of relations with Russia, Kharkiv has quickly turned from a trading post into a fortress. The Ukrainian government's plans to build a wall at the border with Russia, mostly stalled due to a lack of funds and embezzlement charges, was actually followed through on in Kharkiv. Although the state's readiness to act in case of a new conflict is called into question by locals, there are citizens that are ready and possess the necessary skills.

The State and the City

Ultimately, Kharkiv does not fit into a single box. Ukraine's second-biggest city lacks national ambitions. It has a very high concentration of students compared to many other parts of the country, yet most young people tend to avoid civic or political activism. It has a long history as an urban center of avant-garde intellectualism, where a wide range of political views (including pro-Russian dissent and efforts to raise awareness about gender discrimination and LGBT rights) have gone underground. The city has multiple identities, being a trading center located at an international crossroads, a home to the country's IT industry, an educational and scientific center of national significance, as well as a region with rich natural resources and vast tracts of agricultural lands. Diversity has been one reason that the region has managed to adapt to new realities, avoid radical solutions, and stay afloat amid the crisis.

Due to the political pact struck with Kyiv, local governing structures have remained intact. For Poroshenko, who is managing an uneasy ruling coalition in Kyiv, the decision to work with corrupted local elites in Kharkiv, as well as in Odessa, was evidently the lesser evil. The collapse of central authority in Kyiv and the threat of Russian aggression made it necessary to concentrate power and muster whatever capacity was available. The incumbent mayors in Kharkiv and Odessa managed to consolidate their power following the Euromaidan and win local elections by large margins. Decentralization reforms are not a cure for bad governance in this national and local political context. While Kernes remains the center of the fiefdom in Kharkiv, the mafia-like rule there differs from the oligarchic clans of Dnipro and Donbas in the sense that it does not aim to subdue national politics.

The region's future development will depend on whether it can ensure the necessary investment into the core competencies of its educational, scientific, and industrial potential for innovation. Kyiv's emphasis on patriotism and decommunization are unlikely to win hearts and minds in eastern

Ukraine, but substantial (foreign) investment is held back by a corrupted governance structure and a business environment ruled by criminal interests.

This leaves the people of Kharkiv dreaming about what might have been. The modern Ukrainian writer Oleksandr Irvanets's most recent book, *Kharkiv-1938*, features Kharkiv as the capital of a version of Ukraine that managed to preserve its independence amid the civil war in 1918–1919. In this alternative history, Ukraine is one of the most developed and prosperous countries in Europe, a place that builds flying machines: Kyiv-born aviation engineer Igor Sikorsky never left Ukraine for the United States. Meanwhile, Kharkiv is featured as a carnival-like city that attracts foreign journalists, filmmakers, and writers from all over the world. The book's black humor contrasts with the everyday fight for survival amid insecurity.

Big political change is unlikely in the actual Kharkiv. Even though there are rumors that Kernes may be preparing an exit plan, any transition will likely be a conservative one. Likewise, no matter what results the 2019 elections bring; any ruler in Kyiv will have to make sure that the region stays under control. In the meantime, meaningful discussions about the future of the region are being held by civic activists, young artists, and intellectuals, not by the authorities.

Kharkiv is just one piece of the puzzle of Ukraine, as the weak rule of law and rampant corruption there mirrors the overall state of the country. The state authorities should take responsibility for creating the necessary conditions that will allow Ukraine's regions to prosper and renounce rudimentary tendencies inherited from the Soviet times toward centralized control of local politics. The possibility of transforming Kharkiv into a Silicon Valley for eastern Ukraine will remain just a utopian aspiration until the emergence of a Ukrainian state that prioritizes its citizens' interests, economic well-being, and social mobility at home. Until then, adaptation and survival amid a continuing exodus is as much as the people of Kharkiv can realistically hope for.

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Notes

[1] Authors' interviews with witnesses and participants of these events, Kharkiv, March 2018.
[2] The Russian spelling of the mayor's name is Gennady Kernes.
[3] Authors' interview with the NGO Station Kharkiv.
[4] Based on discussions held during a workshop, Kharkiv, June 8, 2018. The name of the workshop was Decentralization and Work With Internally Displaced People: International Experience and Local Problems. It was organized by the Ukrainian Institute for Public Policy, an NGO called Right to Protection, the University of Leiden, and Carnegie Europe with financial support from the Netherlands Council for Scientific Research.
[5] Authors' interviews with representatives of international organizations working on human rights issues, Kharkiv, March 2018.
[6] Authors' interview with a human rights expert, Kharkiv, March 2018.
[7] The polling data in this section comes from a survey administered by GfK Ukraine (see hyperlink). The first wave of the survey was conducted in late 2015 and early 2016 and the second wave took place in early 2017.
[8] The percentage of the region's population was based on the authors' calculations, drawing on population data for the new communities and the region of Kharkiv as a whole (see hyperlink).
[9] Max Bader, "Decentralization and the Risk of Local Elite Capture in Ukraine," (unpublished manuscript, June 2018). This draft was developed through the Research Project on Human Security and Conflict in Ukraine: Local Approaches and Transnational Dimensions conducted by the University of Leiden and Carnegie Europe.
[10] These figures are based on the authors' calculations derived from government data from the State Statistics Service of Ukraine (see hyperlink).
[11] This salary figure is based on the authors' calculations using Ukrainian government data (see hyperlink) converted from hryvnia to U.S. dollars based on the exchange rate on September 1, 2018.
[12] This figure is derived from the authors' calculations based on government data (see hyperlink).

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