RUSSIA’S NEW SOFT POWER: THE MIR CARD SYSTEM

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Abstract: After the onset of Western sanctions in 2014, the Russian National Card Payment System (NSPK) and its corresponding Mir bank cards launched the following year. Five years later, estimates show that 56 million people are using Mir cards, more than 20 percent of Russia’s bank card market and will be operational in twelve foreign countries. Traditionally, scholars have examined Russian soft power as aiming to integrate post-Soviet countries with Russia and Central Asian countries through promoting beneficial economic and cultural relationships. With the Mir card system, Russia is seeking primarily to become less dependent on a dollar-dominated financial system, as well as to avoid potentially increasing US sanctions and to overarchingly seek to build a multipolar system. This research will investigate the Mir card system.

Keywords: Soft Power; Russia; Financial Diplomacy; Multipolarity; Former Soviet Union

INTRODUCTION

In recent years, Russian soft power has gained interest amongst the scholarly community, but literature on the subject has been limited. Existing literature focuses on theoretical conceptions, effectiveness, and usage of soft power in the post-Soviet space (Kiseleva 2015). These analyses have looked back at Russian soft power actions mostly within the Western framework of soft power as established by Joseph Nye (Cheskin 2017, Dolinskiy 2013, Makarychev 2011, Parshin 2013, Rukavishnikov 2010, Saari 2014, Simons 2014, Hudson 2015). However, approaching it from this angle inherently misses the broad nature of Russian soft power and implies a negative normative comparison against soft power approaches taken by Western powers such as the United States, France, and Germany. This analysis instead focuses on a specific instance of Russian soft power, namely the Mir Card system,
outside of the normative biases of a Western framework, which here refers to a set of activities of a foreign policy strategy that is based on the principle that financial, economic and political interests reinforce one another and thus should be seen holistically.

In December 2015, the Central Bank of Russia introduced Mir cards domestically as a national alternative to Visa and Mastercard. While Russia has many official reasons for adopting the Mir card system, it is, first and foremost, a soft power tactic aimed internationally as a counter-alternative to Western financial frameworks. Russia's current soft power is centered on upgrading the status of the Mir card system in the international financial framework, which in practical terms means attempting to subvert the dollar-dominated system. This process is distinguished by two main features. First, it is a blatant act of subversion against American and European sanctions. Second, it is but one step in a larger strategy to build a more multipolar system where Russia holds a larger share of power.

This article will begin by exploring the current literature that surrounds Russian soft power, as discussed by a variety of scholars. Further, it will introduce the Mir card system and investigate the Mir Card system as a specific instance of Russian soft power.

LITERATURE REVIEW

Soft power is a term widely used amongst diplomats, academics and practitioners that refers to the power of attraction in world politics (Nye 2004; 2011). While soft power originated with Joseph Nye's original work, which distinguished coercion (hard power) against attraction (soft power), the literature has considerably evolved since that point (Nye 2011). There is fierce debate amongst scholars on how to engage with the discourse of soft power in foreign policy analysis, what relevance it has amongst power literature as well as whether it has any utility at all (Layne 2010, Gallarotti 2010, Warren 2014). Moreover, some critical IR scholars view soft power as discriminatory because Nye has suggested US and Western values are inherently attractive as opposed to other values such as those preferred by more autocratic regimes (Lukes 2005, 10, Scott-Smith, 2010, 167, Lebow 2005, 522). Amongst these debates, however, scholars agree that soft power is “an ambiguous signifier with a nebulous theoretical core” (Kern 2011, 66). This vague theoretical center has resulted in many different approaches, demands for more conceptual discussions, and understandings of soft power, particularly as states such as Russia use the term differently (BiallyMattern 2005, Reich and Lebov 2014). According to Nye and traditional soft power scholars, Russia lacks an overall soft power strategy. So far, literature surrounding Russian soft power has focused on the usage of Russian soft power in the post-Soviet space and its overall effectiveness (Cheskin 2017, Dolinskiy 2013, Makarychev 2011, Parshin 2013, Rukavishnikov 2010, Saari 2014 and Simons 2014). This is, in no small part, due to a “lack of cooperation between soft power ‘tools,’ but also in the fact that the visions, objectives and narratives to (re-)cultivating Russian soft power are not always complementary” (Hudson 2015, 334).
This lack of soft power strategy, however, misses that Russia defines its soft power in a way fundamentally different than Nye. According to Russian President Putin (2012), soft power is “a set of instruments and methods used to achieve foreign policy goals without resorting to military means, but with the help of information and other instruments of influence.” This definition is markedly different than Nye’s. Specifically, Putin here only specifies that military means is what makes an action an instrument of hard power rather than soft. In two speeches in 2013 to the Valdai Discussion Club and to the Kremlin, Putin, for example, focused on eulogizing the traditional moral virtues of Russian civilization, making a distinction between the moral integrity of Russia against the decadent morality of the West as part of his soft power approach (Putin 2013a, Putin 2013b). In short, Russian soft power has evolved differently from Nye’s definition and has a broader signifier that takes many tools under its umbrella to make the Russian state and its policies more attractive.

This article aims to investigate the Mir Card System as a specific instance of Russian soft power by addressing two foreign policy objectives that it aims to achieve, namely avoiding international sanctions and abandoning the dollar-dominated system while addressing how its origins match up with its effectiveness. Throughout, I will use a primarily qualitative method of analysis.

THE MIR CARD SYSTEM

In December 2015, the Central Bank of Russia introduced Mir cards domestically as a national alternative to Visa and Mastercard. Currently, there are over 56 million Mir debit cards and 1.3 million credit cards, which have been issued by over 140 banks (Global Data 2019). More than half of these cards were issued by Sberbank (Devonshire-Ellis 2018). According to the National Payment Card System (NSPK), some of the benefits are:

- that transactions cannot be suspended, and no external political or economic factors will adversely impact them;
- that they will assist moving the Russian economy to a predominantly cashless payment method; and
- that the Mir cards will be reliable and independent from foreign companies (National Payment Card System).

Moreover, the NSPK states that it will promote the Mir cards both nationally and internationally. According to Global Data, the domestic adoption of the Mir Cards has been so successful due to concerted government efforts, large scale card issuance and merchant acceptance. This success is in no small part because Mir cards have a comparatively low acceptance cost for merchants. Whereas Mastercard charges a 1.5% and 1.55% interchange fee on debit and credit cards, Mir cards only charge a 0.8% fee on debit cards and 1.3% fee on credit cards (Global Data 2019). Furthermore, federal legislation in July 2018 required all public sector employees to switch to Mir cards by July 2018 in order to receive their welfare
benefits (Interfax 2017). Next year, pension payments as well as child and unemployment benefits will only be paid on the cards (Voronova and Tetrault-Farber 2019).

After its overall successful adoption of Mir card domestically, which more than twenty percent of Russia’s bank card users have implemented, Russia expanded this national financial card system abroad. The head of the (NSPK), Vladimir Komlev, told Reuters that “In the next three years, we want Mir cards to be operational in countries where Russians are used to traveling” (The Moscow Times 2019). This expansion has already been successful in some countries. According to Rosstat, Russians made 5.7 million trips to Turkey in 2018. Turkey’s Isbank began accepting Mir cards in April 2019 (Voronova and Tetrault-Farber 2019).

China has similarly been accepting Mir cards at an increasing number of banks (Zheng 2017). In 2016, Chinese online retailer AliExpress announced they would accept Mir cards as payment (The Moscow Times 2016). In 2017, UnionPay International and the NSPK jointly issued a UnionPay-Mir debit card which allows Mir cards to be used in the UnionPay network, which covers more than 160 countries outside of Russia (Union Pay International 2017). Mir cards are present even in de-facto territories such as South Ossetia (Alania Inform 2018).

AVOIDING SANCTIONS

Russia has been promoting the Mir card system to a large degree because of international sanctions, such as in response to Russia’s 2014 annexation of Crimea and its interference in the 2016 presidential election, potentially affecting Russian banks doing business with US-based Mastercard and Visa (The Moscow Times 2016).

While the effectiveness of Western sanctions is disputed by many, scholars and practitioners argue that the most damaging impact of sanctions on Russia is its unpredictability (Russell 2018, Connolly 2018, Wonder 2018, Kluge 2019). American and European sanctions began in 2014 on a diplomatic basis, first suspending ongoing talks between the EU and Russia regarding visa liberalization and a new EU-Russian partnership agreement. In a later stage, specific people and entities related to Russian actions in Ukraine were further sanctioned by both America and the EU. In the last and current stage of sanctions, sectoral economic sanctions were levied against Russia (Kluge 2019).

However, this pattern of sanctions changed when President Donald Trump came to power. Rather than working jointly with Europe, US sanctions against Russia became focused on domestic considerations. As a complicating factor, EU member states have their own interests, particularly relating to Nord Stream 2 (Kluge 2019). EU/European sanctions on Russia also differ from American sanctions on Russia with regards to Russian oil and gas. The EU is dependent on Russian gas and therefore focuses energy sanctions on oil, for example, while allowing previously existing activities to continue. In contrast, American sanctions apply to both the oil and gas sectors with no exceptions (Russell 2018, 4). Because of the wide variety and evolving nature of these sanctions, Russia has been forced to similarly change and adapt its approach over time.
This evolving response has been part of the reason why its tactics have been effective. The Russian government’s strategy aims to reduce the impact of sanctions and protects its domestic economy from any potential future threats. The strategy has three complementary components: a) securitization of its economic policy, b) support of import substitution of strategic sectors and c) cultivation of closer economic relations with non-Western countries (Connolly 2018, 4). This strategy involved most importantly the creation of the Mir card system, which further reinforced the domestic banking system in opposition to Western banking systems (Russell 2018, 11). One example of this strategy was the removal of weak banks by the Russian state, which gave the state more power over the domestic banking system and strengthened the profile of the Mir Card System. Promsvyazbank, for example, assisted sanctioned firms and removed toxic assets off of Russian banks’ balance sheets in order to support their international actions. Moreover, Russia introduced a floating ruble exchange rate in November 2014 (Kluge 2019). Both of these strategic moves supported import substitution of its strategic sectors and securitization fits economic policy. This domestic strategy and the creation of multilateral financial organizations with non-Western countries such as the Eurasian Economic Union has been effective in creating alternative financial options that avoid Western sanctions. Moreover, Russia has reduced its reliance on weapons manufacturing imports – making it independent from specific sector-based sanctions (Kluge 2019).

Russia has been able to protect key sectors of its economy from sanctions through considerable influence it had already built therein. However, the Russian government faced a challenge. Prior to the sanctions regime, the Russian financial system was in the process of integrating with the global financial system, particularly as a recipient of finance and aid. In order to combat this, the Russian state engaged in ‘Russification’ – using domestic and state-controlled sources of capital to fill the gap of finance that many domestic firms faced in the wake of sanctions (Connolly 2018, 9). This has led many to claim that the sanctions are having little to no effect on the Russian economy.

Regardless of these claims that sanctions are having no impact, Russian officials have still called them “insane” and “reckless” as well as “tantamount to racketeering” (Ellyatt 2019). This kind of language suggests that sanctions are indeed having at least some kind of impact, because if they were not, it would not make sense for Russian officials to be so outwardly aggressive against them on the world stage. Indeed, Russian banks were forced to pay back around $60 billion USD of loans in the year starting in June 2014 (Russell 2018, 9).

Domestically, these loan repayments amongst the other rhetoric surrounding sanctions are framed as a US strategy to regain control to a unipolar world order when Russia is resurging (Kluge 2019). This fits neatly into Russian rhetoric and approach to build a multipolar world order. Further, whether or not sanctions are effective does not dispute the fact that the Mir Card System was created in response to these very sanctions. In this case, the origins of the Mir Card System do match up with its effectiveness as outwardly, the Russian state does not appear to be suffering from sanctions.
ABANDONING THE DOLLAR-DOMINATED SYSTEM

Another reason for the adoption of this payment system, according to Dmitry Medvedev, Prime Minister of Russia, is an attempt to move from the dollar-dominated financial system that exists today because: “no one currency should dominate the market, because this makes all of us dependent on the economic situation in the country that issues this reserve currency, even when we are talking about a strong economy such as the United States” (Devonshire-Ellis 2018).

This rationale harkens back to the term ‘multipolarity’. Within Russian foreign policy, multipolarity not only characterizes Russia as a strong state and relevant of international standing, but also is a concrete goal that Russia seeks to achieve “by reconstructing its global and regional role in the post-Cold War architecture” (Saltzman 2012, 561). This overarching goal is similar to other Russian soft power tactics as evidenced in Russia’s creation of multilateral institutions to balance out power distribution on the world stage such as the Commonwealth of Independent States (CIS) and the Eurasian Economic Union (EAEU). In short, the aim has always been to maintain regional power, stability, and to prevent outside influence from invading post-Soviet states (Slobodchikoff and Davis 2017, 28).

Evidence for this move away from a dollar-dominated system, called a ‘de-dollarization policy’ is also amongst recent Russian financial decisions. According to Russian Finance Minister Anton Siluanov, Russia is considering the yuan and euro as currencies for Eurobonds next year rather than the dollar (Russia Today, 19 October 2019). Moreover, Rosneft, Russia’s largest oil company has switched to the euro as its base currency for all export contracts, and Russia has been slowly decreasing the US currency share of its international reserves (Russia Today, 13 October 2019).

Russia’s de-dollarization policy is shared by other states, notably China. In 2016, Russia introduced Urals crude oil futures in rubles. Moreover, since July 2011, the Iranian Oil Bourse (i.e. the Iranian Petroleum Exchange) has been using the euro and the Iranian rial to settle oil deals rather than the dollar (Monan 2018). Both China and Russia see an increasingly multipolar and pluralistic world order as more beneficial for their interests. While their stances on what kind of global governance would be the most personally advantageous differ, they currently strategically cooperate to decrease the value of the dollar. For Russia, multipolarity means a lesser role for the United States, more bilateral trade and different centers of currency concentration and power.

Russia seeks a multipolar world where it can regain control over its neighborhood and status as a great power (Stronski and Ng 2018). While the Mir Card System is a small part of moving away from a dollar-dominated system, which includes the heavy usage of Visa and Mastercard, it is but one cog in a larger system. Soft power measures such as the creation of the Mir cards are effective because they do not create an entirely different system of values than the ones used by Mastercard and Visa. They merely operate as a counter system.
RUSSIAN SOFT POWER AND THE MIR CARD SYSTEM

Looking back at Russian soft power as a whole, Slobodchikoff and Davis acknowledge that rather than forming its own cultural identity to gain attraction, Russian soft power works like a counter ideology that runs against the West (Slobodchikoff and Davis 2017, 28). The Russian national identity on which soft power is meant to be based is made up of both traditional Russian cultures, and of Russian geopolitical history – particularly that which ignores the collapse of the Soviet Union. In the aftermath of the Soviet Union’s collapse and as NATO and the EU began to expand into former Soviet satellite states, Russia began to feel insulted and disrespected. In response, Russia attempted to develop a regional identity by forming multilateral organizations such as the Commonwealth of Independent States (CIS) and the Eurasian Economic Union (EAEU). These multilateral institutions existed to form more receptive audiences for the spread of Russian soft power. However, running parallel to this attempt of attraction towards former Soviet states, Russia also attempted to discredit Western values, by “show[ing] the hypocrisy or moral incongruity” in the West. Hence, rather than creating a separate system of values, it instead raised negative aspect of already existing Western ideals (Slobodchikoff and Davis 2017, 27). This same tactic is evident amongst the creation of the Mir Card System, as Russia has repeatedly stated its importance for avoiding Western sanctions and supporting their de-dollarization policy. These sanctions are characterized as harmful to Russian citizens and discredited as negative public diplomacy against them. The Mir Card System also aims to attract other countries such as China in order to further build mutually beneficial financial relationships. This relationship building as a part of soft power is not new, as evidenced by the creation of many other multilateral organizations such as the EAEU and the CIS.

What distinguishes the Mir card system is that it originated from a domestic need and fear of international sanctions. While many of the origins for the Mir Card System appear to match with their intended goals, it remains unclear if the system originated specifically as a soft power initiative to protect its domestic population and evolved slowly to also avoid Western sanctions and as a part of Russia’s de-dollarization policy. Alternatively, the Mir Card System could be part of a larger strategy to achieve both of those objectives from the start. Regardless of the actual origin, it is clear is that the Mir cards are now an undeniable part of Russian society, due in no small part to Russian government initiatives.
CONCLUSION

Over the past few years, the Mir card system has become more prominent both within Russian society and internationally. This comes as no surprise given the predominantly aggressive stance the Russian government has taken in supporting this measure. While there are a variety of reasons for the adoption of the Mir Card System, it is most importantly a soft power tactic that offers an alternative to Western-based financial Visa and Mastercard systems. Further, the Mir Card System originates from and achieves two specific and one broad Russian foreign policy objectives: a) avoid international sanctions, b) undermine the current dollar-dominated system, and c) build a multipolar system. While the system does not achieve any of these foreign policy outcomes alone, it operates as a cog within a larger framework.

This process is distinguished by two characteristics. First, it is a blatant act of subversion against American and European sanctions. Second, it is but one step in a larger strategy to build a more multipolar system where Russia holds a larger share of power. In short, the Mir Card System is meant to achieve foreign policy objectives by promoting a counter financial alternative as one arm of a larger and more holistic soft power approach that takes into account a multitude of financial, political and cultural tools. The ultimate realization of these goals, according to Tsygankov, is the restoration of “imperial control if not by tanks, then by banks” (Tsygankov 2006, 1080). Russia’s soft power strategy has and will continue to attract other countries by using any means at its disposal in order to restore itself to what it considers its rightful place as a great power on the world stage using, in this instance, the Mir Card System.
REFERENCES


