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Asian International Infrastructure Bank (AIIB) and its Relationship with the International Monetary Fund (IMF): A Systematic Competition and Aid Conditionality Analysis

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1.0 Introduction

The existing literatures suggests that financial institutions like the IMF in many instances act as proxies the hegemon, thus in the current global governance order following US foreign policy objectives. However, since the rising power of China, western financial institutions have been challenged as sole lenders to developing countries. AIIB, which stands for Asian Infrastructure Investment Bank, is a multilateral development bank on developing Asia, but with members from all over the world, with its investments in infrastructure and other productive sectors seek to foster sustainable economic development, create wealth, and improve infrastructure connectivity.

The IMF has been known for its work to achieve sustainable growth and prosperity for all its 190 member countries by supporting economic policies that promote financial stability and monetary cooperation. Many literatures have criticized IMF for being politically biased due to its intensive tie with the US. Whether this systematic flaw behind western multilateral international organizations can also exist in Asian multilateral development bank is the focus of this paper. This thesis works as a further development on the issue of AIIB justification on its rising public status and provides finding on IMF's initiative in response to the AIIB through several case analysis. This thesis helps answer the following questions: **is the IMF systematically competing with the AIIB?** and **how does the relationship with the AIIB influence IMF aid offers?**

2.0 Literature Review

AIIB is one of two multilateral banks created in 2014, the other being the New Development Bank (NDB). The two multilateral lending banks were created to operate outside the Bretton Woods System that established the World Bank and the IMF (Reisen 2015). The

Bretton Woods System created a financial system dominated by America and Western capitalist nations. The AIIB and the NDB were meant to rival western dominance by giving power to new economic powers led by Brazil, Russia, India, China, and South Africa (BRICS). The western nations that control IMF and World Bank resisted reforms to give BRICS nations more power. Therefore, these countries formed new multilateral financial systems that would control and raise funds to finance economic development in the member states. By March 2015, 50 countries, mostly from Asia, had applied to join AIIB and NDB (Reisen 2015). The rapid rise in membership numbers set the stage for competition between AIIB and the IMF.

The AIIB is part of China's strategy to dominate the international political and economic arena. In 2010, China overtook Japan and became the world's second largest economy (Ren 2016). By 2013, China had amassed a foreign exchange reserve worth over $3.8 trillion (Ren 2016). China was successful economically, but it had a major problem; the country had limited influence in the IMF and World Bank (Ren 2016). Western counterparts, such as Britain and America, have significant control in these institutions, but China faces obstacles in its push to become a major player in the global financial stage. The solution was to create an institution in which China would have a dominant position. China supported the formation of AIIB, which currently has 109 member states, to drive economic and social activities in Asia and across the world. Although the BRICS countries are the founding members, China plans on contributing 50% of AIIB's capital (Yang 2016). This will give Beijing veto powers and significant influence over the economic and political functions of the AIIB.

The growing demand for infrastructure development across Asia was another motivating factor for the creation of AIIB. Asian Development Bank estimated that Asian countries would need about $8 trillion for national infrastructure projects in the decade ending in 2010 (Ren

2016). Countries in Asia and Africa have invested heavily in infrastructure projects in telecommunication, roads, railway, and power. These projects increase the comparative and absolute advantage of the countries due to the increase in economic productivity (Arif, Muhammad, and Farzana 2021). China needed an investment vehicle that would generate political and economic advantage over its main rivals, especially Japan (Yoshimatsu 2018). Dominating infrastructure project would be an investment for China and its companies. These projects would also benefit the country politically because infrastructure projects lead to political alignments. AIIB would help finance major infrastructure projects across Asia and strengthen China's political influence in the continent.

There are mainly two streams of scholarly literature that need to be closely examined before investigating deeper in multilateralism. The most developed stream is built based on studying multilateral organizations like IMF and World Bank to better understating the pragmatism within western used of multilateralism. Scholars like Stephen C. Nelson, Robert Barro have contributed enormously to the field. Another stream is focusing on the new rising monetary aid from Asia. China's role in offering aids to other countries have gained scholars' attention as literatures arguing whether China's is threatening US for hegemonic power in an international political economic view of point. Although this topic has only been gradually developed for the past decade, scholars like Stephen B. Kaplan and Ayse Kaya have directed fellow scholars to understand the importance of studying mechanism behind Chinese influence.

In Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions, Nelson accused IMF of being systematically biased. Preferential treatment is largely driven by the degree of similarity between beliefs held by IMF officials and key economic policymakers in the borrowing country. The author concludes that when fellow neoliberals control the top economic policy posts the distance between the means of the policy team's beliefs and the IMF narrows. Consequently, IMF loans become less onerous, more generous, and less rigorously enforced. The evidence from a battery of statistical tests reveals that as the proportion of neoliberals in the borrowing government increases, IMF deals get comparatively sweeter. In fact, besides Nelson, scholar Robert Barro and Jong-Wha Lee have made similar claims on IMF in their study. The authors believe that loans tend to be larger and more frequent when a country has a bigger quota and more professional staff at the IMF and when a country is more connected politically and economically to the United States and other major shareholding countries of the IMF. People would assume that as an international organization, there would not be obvious bias toward certain countries. However, as various scholars, including Nelson, have proved, organizations like IMF or World Bank have been severely influenced under western hegemony.

In addition, the current AIIB policies do not include austerity measures that constrain the IMF. AIIB's influence increased rapidly due to the lack of austerity measures, which allows the institution to expand quickly and invest in as many sectors as possible (Tien et al. 2019). Whether the lack of austerity policies is a good or bad things remains to be seen, but their absence is an advantage at the moment. AIIB has the freedom to expand and invest in economies in Asia, Eastern Europe, and Africa. Consequently, the institution can choose any economic sector for investment. This setting gives AIIB the power to expand its investments beyond infrastructure and energy. In the future, AIIB could introduce Austerity policies and other reforms that will change its operations. However, the institution has the potential to take over the world and become a formidable rival to the IMF.

As the AIIB emerges as a prominent player in infrastructure financing, its offers of aid may influence the IMF's lending decisions. The AIIB's alternative approach and potential competition could pressure the IMF to reconsider its lending strategies, taking into account the evolving global financial landscape and the shifting power dynamics associated with the rise of China and other emerging economies. Conditionality, the policy reforms imposed by lending institutions, is a significant factor in aid provision. Barro and Lee's study (2005) and Dreher and Vaubel's work (2004) provide a comparative analysis of conditionality between the AIIB and the IMF. By examining the conditionality requirements of both institutions, these studies shed light on the potential differences in their approaches. The AIIB, as a newer institution, might adopt a more flexible and tailored approach to conditionality compared to the IMF. Such differences in conditionality requirements can influence recipient countries' decision-making and their perceptions of the AIIB as a more favorable lending option. Further details will be explained in the latter paragraph on why does this paper pay extra attention on the change of the IMF's conditionality as it tries to prove its competition with the AIIB.

The IMF's lending decisions and the conditions it imposes on recipient countries can have implications for the AIIB's aid offers. Dreher and Jensen (2007) explore the impact of US interests on IMF conditions, which can shed light on how the IMF's relationship with recipient countries might affect the AIIB's aid allocation decisions. The AIIB, as a competitor, may consider countries that have strained relationships with the IMF as potential recipients of its aid offers. This suggests that the IMF's conditionality and its perceived alignment with certain geopolitical interests can directly shed light on the IMF's aid allocation strategies.

In order to build on the theories that there will always be systematic bias lied within multilateral organization, it is essential to examine AIIB's past activities to identify mechanism. The governance structure of the AIIB plays a crucial role in understanding its potential competition with the IMF. Kim and Lee (2020) examine the voting dynamics within the AIIB in their study "Gaining Ground, Gaining Influence? Vote Shares and Power in the AIIB." Their research reveals that while China holds a significant voting share, other members also possess substantial influence. The study highlights the complex power dynamics within the AIIB and the potential for member states to shape decision-making processes and aid policies. This suggests that the AIIB's governance structure has the potential to challenge the traditional dominance of Western countries in global financial institutions like the IMF.

China's financial diplomacy is a key factor in shaping the AIIB's approach to aid provision and its potential competition with the IMF. Broz, Zhang, and Wang (2020) explore this aspect in their research "Explaining Foreign Support for China's Global Economic Leadership." The study highlights how China's economic initiatives, including the AIIB, serve as mechanisms for promoting its global economic leadership. China's financial diplomacy allows it to expand its influence by attracting support from countries that perceive the AIIB as an alternative to the IMF, potentially challenging the IMF's role as the primary lender and arbiter of global economic governance.

China’s financial diplomacy has attracted criticism due to assertions that the country is trapping developing countries in debt to make them economically dependent. The U.S. and other China’s rivals argue that Beijing is snaring countries in Africa and use debt as a reason to take over critical assets (Singh 2020). China’s supporters argue that the financial diplomacy does not include predatory lending or create debt traps for its beneficiaries. For example, China issues resource-backed lending to countries in Africa and Latin America. These loans are tied to natural resources such as oil, cocoa, diamonds, and copper (Gallagher 2016). Tying loans to natural resources should not be viewed as a strategy to take over mines. This is a strategy to reduce the risk since some countries might default on the loans and China will recover its investment from the natural resources. Another explanation is that the bilateral agreements create mutual benefits by giving China access to mineral for its industries and the recipient nation gets finance for its projects.

China's involvement in African infrastructure projects provides a valuable context for understanding the implications of the AIIB's aid policies. The sources "China and the World Bank – How contrasting development approaches affect the stability of African states" and "Financing African infrastructure: The role of China in African railways" (2021) examine the role of the AIIB and China in African infrastructure development. These studies highlight the increasing presence of Chinese financing and the AIIB's potential role in funding infrastructure projects in Africa. This raises questions about the IMF's role and influence in the region, as the AIIB's offers of aid may provide African countries with alternative financing options, potentially reducing their dependence on IMF assistance.

In *Globalizing Patient Capital: The Political Economy of Chinese Finance in the Americas*, Kaplan argues that policy banks also tie their overseas financing to a range of other commercial conditions, including local government purchases of Chinese machinery and materials and guaranteed contracting with Chinese firms, to gain a foothold in key global industries such as energy or telecommunications. The situation can also be applied to AIIB with it offering infrastructure reconstruction towards its fellow members. More significantly, Kaplan believes that Chinese financing offers Latin America a developing opportunity, but it is embedded in commercial terms. State-to-state loans offer Latin American governments a more patient alternatives to the West's conditionality-linked financing, but it comes at the cost of commercial conditionality. Although this literature puts focuses on Chinese investing both official and unofficial (private equity), the same mechanism can explain AIIB's purpose as the biggest Asian multilateral development bank.

Ayse Kaya's *Asian Infrastructure Investment Bank as an Instrument for Chinese Influence? Supplementary versus Remedial Multilateralism* and Qian and Zhao's *The Impact of China's AIIB on the World Bank* shed lights to this research. Both articles prove that contrary to past conjectures, there is no evidence that AIIB is aiming to replace IMF's international status regardless the fact that AIIB offers an alternative offer other than West's conditionality-linked financing. Findings contrast with studies of American influence and reflect those unique circumstances facing China and the AIIB. Nevertheless, whether AIIB has the attention of taking countries from IMF is still under question. However, there is no question that China is looking for ways to strengthen its grip on international power. The country is the world's second economy, but it lacks significant political influence due to the misalignment with the West. Therefore, it is clear that Beijing wants to create a new Asian and Eastern European power block that will rival the existing status quo led by the U.S. and Western Europe. To that effect, China might not ask countries to abandon the IMF to join AIIB, but the latter is an alternative that will appeal to many countries.

In conclusion, the AIIB's emergence as a prominent multilateral institution has led to discussions about its potential competition with the IMF and the influence of their relationship on aid policies. The sources reviewed shed light on various aspects of this dynamic relationship, including the AIIB's governance structure, China's financial diplomacy, the interplay between the AIIB and the IMF in aid provision, comparative analysis of conditionality, and the implications for recipient countries' decision-making. These insights highlight the evolving nature of global economic governance and the need to consider the regimes motivations and power dynamics behind the AIIB's establishment and its relationship with the IMF.

About Funding Programmes

The AIIB and the IMF differ significantly in the ways they issue monetary support. The IMF primarily provides aid directly to countries, specifically lending to governments rather than the private sector or civil society. All IMF financing is fungible, meaning that the loans are not tied to specific projects or expenditures. The IMF offers different types of loans or programs to governments based on their circumstances and income classification.

IMF member countries are eligible to borrow from the IMF's General Resources Account (GRA) at market-based interest rates. However, only low-income countries are eligible to borrow at concessional rates through the Poverty Reduction and Growth Trust (PRGT). Currently, PRGT offers loans with zero interest rates to low-income countries (IMF 2023). IMF members finance PRGT programs to assist countries affected by financial problems and debt. The amount a country can borrow under each instrument depends on its IMF quota share, which is determined by a formula considering factors such as the size of their economic output. IMFT affords PRGT loans since the institution receives financing from member countries. Each country pledges an amount of money to boost PRGT pool to assist countries that qualify.

The IMF has several main lending instruments, including Stand-By Arrangement (SBA), Standby Credit Facility (SCF), Extended Fund Facility (EFF), Extended Credit Facility (ECF), Rapid Financing Instrument (RFI), Rapid Credit Facility (RCF), Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), and Catastrophe Containment and Relief Trust (CCRT). Each instrument serves different purposes and has specific eligibility criteria.

To better examine the relationship between countries and the IMF, it is necessary to include all programs issued by the IMF. This comprehensive approach allows for a thorough analysis of the financial support provided by the IMF to countries and the implications of its lending instruments on recipient nations.

In contrast, the AIIB's funds are issued under specific types of programs that are categorized based on various sectors. These sectors include energy, transport, multi-sector, CRF-economic resilience/PBF, CRF-public health, CRF-finance/liquidity, water, urban, digital infrastructure and technology, education infrastructure, rural infrastructure and agriculture development, and others. These categorizations indicate the AIIB's focus on financing projects within these sectors and promoting infrastructure development in areas that align with its objectives.

By clarifying the differences in the issuance of monetary support between the AIIB and the IMF, we gain a better understanding of the data collected from these institutions. This clarification enables us to conduct a more detailed examination and analysis of the funding patterns, preferences, and potential competition between the AIIB and the IMF, as well as the impact of their respective programs on recipient countries.

3.0 Methodology

Analyzing the data collected from the Asian Infrastructure Investment Bank (AIIB) and the International Monetary Fund (IMF) programs from 2016 to 2024 provides valuable insights into the categorization of countries based on their funding sources. Data collection was limited to this period because the AIIB became operational in 2015. The dataset includes 82 programs that have granted monetary support to specific countries throughout this period, with a total of 26 regional and 6 non-regional countries in the AIIB's program portfolio.

On the IMF side, besides the latest financial commitments between 2016 and 2022 were examined to complement the AIIB's data, certain corporation in the history will also be considered in terms of different cases. Although IMF has existed since 1944, data that exists before 2008 cannot be used for a fair comparison with AIIB. Therefore, an accurate comparison requires that the timeframes be harmonized and restricted to the 2008-2024 timeframe.

By combining data from the AIIB and IMF, countries can be categorized into three distinct groups based on their funding sources and recipients. Group 1 consists of countries that have received funds from both the AIIB and the IMF at various points during the analyzed timeline. These countries can be identified as account countries as long as they have received funds from both institutions in any particular year within the timeframe. This group reflects countries that have leveraged support from both multilateral institutions to address their development and financial needs. The presence of countries in this group signifies a recognition of the importance of diversifying funding sources and accessing resources from multiple international financial institutions.

Group 2 comprises countries that have solely received funds from the AIIB throughout the analyzed timeline. These countries have relied exclusively on the AIIB for financial assistance and infrastructure investment. The AIIB's focus on infrastructure development, particularly in Asia, has attracted these countries to seek funding specifically from the bank. This group demonstrates the AIIB's role in providing tailored support and meeting the infrastructure needs of countries that have not turned to the IMF for financial assistance.

Group 3 encompasses non-AIIB member countries that draw exclusively on the IMF for financial support up to date. These countries have engaged with the AIIB, but then solely relied on the IMF to address their financial challenges and promote economic stability. Their exclusive engagement with the IMF underscores the significance of the institution as the primary multilateral lender in the global financial landscape.

The categorization of countries into these three groups provides insights into their funding patterns and preferences, as well as their interactions with multilateral institutions. It highlights the varying strategies adopted by countries in accessing financial resources and pursuing their development objectives. This analysis helps us better understand the dynamics between the AIIB and the IMF and the distinct roles they play in addressing the diverse needs of recipient countries.

There are 10 countries in Group 1 including Bangladesh, Georgia, Jordan, Kyrgyz Republic, Maldives, Mongolia, Pakistan, Uzbekistan, Egypt, Rwanda, Jordan, Sri Lanka, Côte d'Ivoire, Ecuador, Myanmar, Nepal, and Tajikistan. There are 15 countries in Group 2 including Azerbaijan, Cambodia, China, Fiji, India, Indonesia, Kazakhstan, Lao PDR, Oman, Philippines, Singapore, Türkiye, Vietnam, Brazil, and Hungary. Group 3 includes only 3 countries which are Myanmar, Nepal and Tajikistan.

The categorization of countries into Group 1, Group 2, and Group 3 provides a basis for studying whether there is a systematical competition between Asian Infrastructure Investment Bank (AIIB) and the International Monetary Fund (IMF).

This paper focuses on the detailed analysis on group 1 and 2 since these are the countries that have relationships with both international financial organizations. The utilization of these two groups in the study provides a comprehensive approach to understanding the dynamics between the AIIB and the IMF and their interactions with recipient countries. By considering countries that receive fundings from both sides, a more comprehensive analysis of their comparative roles, preferences, and potential competition can be conducted by studying the alteration in the IMF's conditionality.

These qualitative studies relied on secondary research to provide numerical data on the operations of AIIB and the IMF. Secondary data utilizes existing data for systematic analysis to answer the research question (Johnston 2014). Researchers can collect, compile, and analyze existing data from reliable sources such as institutional and government databases. Existing data can lead to new hypotheses and answer research questions. The main advantage of secondary data is that it avoids repetitive data collection methods, some of which are expensive and tedious (Tripathy 2013). Secondary data used in this case study was collected from AIIB and IMF databases. The two institutions collect detailed statistics from each member country. The databases contain data regarding development programs, economic conditions, and GDP among others.

The study also used a case study to answer the research questions. Case studies investigate phenomena within the real-life setting through data collection methods such as interviews and direct observation (Rowley 2002). Generally, the external validity of case studies is limited, but they provide sufficient evidence to support new theories or data for exploratory research. The case studies chose countries such as Jordan, Bangladesh, Pakistan and Nepal because the country receives funding from both AIIB and IMF. The study also includes Nepal as it has unique pattern of receiving IMF's funding after getting help from the AIIB. More significantly, the South Asian countries are ideal for comparing the way AIIB and IMF dispense funds for development. It also offers insights into the political ties that accompany the loans.

Hypothesis:

Hypothesis 1: In the concept of international regimes, there are systematic conflicts between the AIIB and the IMF.

The argument is affirmative if the paper can prove that the AIIB and the IMF contains two different international regime types and competitiveness in between.

Argument 2: When a nation accepts AIIB's offer, IMF will then improve its terms toward this nation as a result of competition.

This hypothesis will be supported if the data collected indicates that IMF approves better terms toward the nation including the amount of the aid offers, frequency of the projects and the conditions attached.

Multilateralism vs. Bilateralism

Multilateralism, characterized by collective decision-making and pooled resources among multiple countries, is a central pillar of global governance and economic cooperation. The IMF, as a key multilateral institution, has traditionally played a dominant role in providing financial assistance and promoting economic stability worldwide. It operates under a framework that encourages cooperation among member countries, aiming to address systemic issues and promote global financial stability through policy coordination and financial support.

The emergence of the AIIB, however, represents a shift towards bilateralism within the international financial architecture. As a regional development bank, the AIIB focuses on infrastructure investment and development in Asia. By adopting a more bilateral approach, the AIIB aims to respond to the specific needs of member countries and provide tailored assistance and financial support. This bilateral approach allows the AIIB to have a more direct and targeted impact on regional development, focusing on areas such as transportation, energy, and communication infrastructure.

The potential competition between the IMF and the AIIB arises from their overlapping objectives and areas of influence. While the IMF historically operated as the primary lender for financial assistance and economic stabilization programs worldwide, the AIIB's establishment challenges its monopoly. With a focus on infrastructure investment, the AIIB has the potential to compete with the IMF in providing financial resources and development assistance to countries in need, particularly in the Asian region.

This competition can be attributed to several factors. First, the AIIB's creation was driven, in part, by the perception that existing multilateral institutions, including the IMF, were not adequately addressing the specific needs of emerging economies, particularly in Asia. For example, the U.S. constantly undermined China's attempts to participate fully in the IMF and World Bank (Etzioni 2016). When the AIIB became operational, the U.S. appealed to its allies not to join the new institution. However, this plea did not work because some of America's allies, such as Brazil, joined AIIB and many others have joined since 2015. The reason for joining AIIB is that the institution will fill the perceived representation gap by adopting a more flexible and tailored approach to development financing, potentially diverting attention and resources away from the IMF. China could achieve this objective by offering low-interest loans and avoiding exploitative terms that subject recipients to additional financial problems.

Second, the AIIB's membership largely consists of countries in Asia, including major regional powers like China, which gives the bank significant influence in the region. This regional focus enables the AIIB to provide development assistance and infrastructure investment in a manner that resonates with the needs and priorities of Asian nations, potentially overlapping with the IMF's activities in the same region. China's focus on Asian countries is both political and economic. Politically, China wants to solidify its position as the strongest country in Asia.

Economically, development in Asia will create a formidable power block that can resist influence by the U.S. and Europe.

Third, the AIIB's increasing prominence and growing financial resources challenge the IMF's position as the primary global financial institution. The AIIB's ability to attract additional funding from both its members and non-member countries expands its capacity to offer development financing and infrastructure investment on a larger scale. This expansion creates a potential competition for resources and influence with the IMF. There is also the possibility that more countries will join the AIIB. Additional members will expand the institution's investment kitty for the benefit of the countries in need of loans for infrastructure development.

Another difference is the lack of conditionality or structural adjustment programs (SAP) among the AIIB. The IMF uses SAPs as a condition to receive aid. The World Bank introduced structural adjustments as an instrument in 1980 (Easterly 2005). The goal of these conditionalities is to compel the recipient nation to reform the economy to open trade and use the aid money effectively. The IMF also adopted SAPs as a condition to receive loans. Recipient nations are expected to reduce government spending, liberate trade, and help the government reduce deficits (Easterly 2005). Countries that fail to implement successful adjustments lose access to funding. For example, the IMF froze $15.5 billion aid to Ukraine in 2011 due to the lack of reforms in the country (Go and Irwin-Hunt 2023). The IMF refused to disburse the funds due to the perception that the lack of reforms would extend ineffective policies that slowed economic growth in the country.

Although the IMF contends that structural adjustments should stimulate economic growth, evidence to the contrary exists. Aggregated data from 1980 to 2014 indicates that SAPs increase inequality in borrowing countries (Forster et al. 2019). Policy reforms proposed by the

IMF restrain government spending, restrict debt, and affect trade (Forster et al. 2019). Recipient countries also struggle to repay existing debt due to the numerous restrictions imposed by the IMF. However, the AIIB does not attach structural reforms to its loans (Tien et al. 2019). The AIIB and China believe that SAPs increase the problems affecting developing nations. Restrictions on economic activities and policies threaten a country's independence and make it more difficult to overcome economic problems.

AIIB has also implemented a different approach to voting power among member states. The IMF and World Bank failed to increase the voting power of developing nations such as Brazil and Indonesia, despite the rapid economic growth. The U.S. Congress failed to approve an increase in voting shares for China, Brazil, and Indonesia (Huang 2015). Over the last 60 years, the voting share has remained the same instead of increasing to reflect economic development. America's reluctance to increase the voting power of the BRIC countries is among the factors that led to the AIIB. Under AIIB, voting powers vary depending on the economic countries. As countries grow, so do their voting powers. The AIIB employs a realistic approach that recognizes changes in the economy and uses that information to alter the powers of the member states.

It is important to note that while competition between the IMF and the AIIB may exist, there are also opportunities for cooperation and coordination. Both institutions share the common goal of fostering global economic stability and development. Through dialogue and collaboration, they can work together to complement each other's efforts, leveraging their respective strengths to address global economic challenges more effectively. However, the current setting of the two institutions makes cooperation difficult. For example, AIIB's is China's brainchild, and the institution has embraced China's norms. Further. Asian countries have most of the voting power (Peng and Sow 2016). China's domination will not sit well with

America and its allies due to the politically motivated differences that prevent the East and West from cooperation. Therefore, the IMF and AIIB have some overlapping goals, but cooperation between them seems less likely.

In conclusion, the competition between the IMF and the AIIB arises from their different approaches to financing and development assistance. The IMF operates under a multilateral framework, providing financial assistance and policy coordination globally, while the AIIB adopts a more bilateral approach, focusing on infrastructure investment in Asia. This competition is driven by the AIIB's aim to fill perceived gaps in existing multilateral institutions and its ability to offer tailored assistance in a region where the IMF traditionally holds influence. However, cooperation between the two institutions remains essential to ensure effective global economic governance and address the complex challenges of the 21st century.

Case Analysis

Axel Dreher first pointed out that the IMF conditionality is designed to give financial assistance contingent on the implementation of specific policies (Dreher 2009). According to the IMF, the success of the loan depends on the conditions; "to secure the revolving character of the Fund's resources conditionality is thus inevitable" (see, e.g., IMF 2002). Therefore, scholars leading by Dreher believe it is worth studying specific way of defining what are the conditions offered by the IMF. Previous study has shown the existence of privileges that the major shareholders of the IMF trade softer conditionality in return for political influence over the Security Council (Dreher 2015).

The fact that scholar Randall Stone has named the scope of conditionality as "United States exercises its informal influence over the process of program design" in his *The Scope of IMF Conditionality* has validated that U.S. has an overwhelming advantage over other states in its capacity to participate informally in IMF decision making (Stone 2008). Since the IMF cannot jeopardize its relationship by threatening to withhold support from the nations that are strongly supported by the IMF's largest shareholder, the United States, those countries enjoy a substantial bargaining advantage in the table (Stone 2008). Previous research has demonstrated that the alteration in conditionality is significant as these changes could be affected by various circumstances. Since measuring the level of conditionality in IMF arrangements is not straightforward, a case study on each individual country will provide a detailed image on how IMF respond as since the nation received funding from the AIIIB (Vreeland 2006).

Countries receiving funds from both the AIIB and the IMF: Pakistan, Bangladesh, Jordan

Pakistan:

Examining the case of Pakistan in receiving funds from both the Asian Infrastructure Investment Bank (AIIB) and the International Monetary Fund (IMF) from 2016 to 2023 provides valuable insights into the geopolitical and other important factors that influence aid allocation. Pakistan, a country located in South Asia, has been a significant recipient of both AIIB and IMF funds during the given period.

According to the IMF History of Lending Commitments for Pakistan, there are financial arrangements back in 2008 and 2013 which are before the establishment of the AIIB (IMF). The amount for Standby Arrangement is approved for over US$7.6 billion which is the largest amount IMF has signed to Pakistan despite that Pakistan only drawn 3.8 billion of the totals (IMF2008). The amount IMF approved for Extended Fund Facility in 2013 also achieved its highest amount in the history of lending commitments with total of US$6.64 billion (IMF2013).

However, a shift occurred during the pandemic. In year 2019 and 2020, Pakistan received fundings from both IMF and AIIB. Although IMF has given Pakistan almost 6 times more than

AIIB provided, Pakistan has turned to AIIB in the following 2021 and 2022. The reasons behind such action require detailed analysis. Similar to the IMF, the AIIB assesses the feasibility, sustainability, and alignment of projects with its environmental and social safeguards.

Pakistan has been a recurrent recipient of IMF financial assistance. Right after Pakistan accepted US$111.81 financing from the AIIB in 2019, IMF suddenly approved US$6 billion 39-month EFF (Extended Fund Facility) arrangement in July the same year. According to the agreement, the approval will unlock from Pakistan's international partners around US$38 billion over the program period. It is then, clear to compare the two conditionalities for the same program but in different time spots. For the EFF approved in 2013, the authorities' program is expected to "help the economy rebound, forstall a balance of payments crisis and rebuild reserves, reduce the fiscal deficit, and undertake comprehensive structural reforms to books investment and growth" (IMF 2013). Conditionalities assigned to this particular program include tax administration (raising the tax-to-GDP), change of monetary and exchange rate policies, the push through on the energy policy, liberalization on the trade regime, public sector and business climate. The conditionality focused mainly on impacting direct and indirect fiscal consolidation and price adjustments. On the other hand, the EFF settled in 2019 started off by issuing a higher amount of loan with higher amount of first disbursement about US$1 billion, which is almost twice the amount of the first disbursement issued in 2013. The program provides "a decisive fiscal consolidation" to reduce public debt and enhance economic resilience. Additionally, it advocates "a flexible, market-determined exchange rate" to restore competitiveness, replenish official reserves, and establish a protective buffer against external shocks (both see IMF 2013). More importantly, the term specifies its requirement of measures to strengthen the State Bank of Pakistan's autonomy and eliminate central bank financing of the Budge deficit. In conclusion, in terms of the EFF arrangements IMF has provided to Pakistan, after the interception with the AIIB, IMF tend to alter its first disbursement for higher, conditionalities toward smaller range but more focus on fiscal problems and intervene with the State Bank.

In July 2023, the IMF approved a 9-month US$3 billion stand-by aid for Pakistan (IMF 2023e). The same stand-by aid was approved back in 2008 with 23-month US$ 7.6 billion helps to address macroeconomic imbalances and promote financial stability. The amount approved stays the same considering the time range and the amount. The immediate disbursement in 2008 was US$3.1 billion which is also about the same proportion as the immediate disbursement for the latest program which is about US$1.2 billion in 2023. The program in 2008 has 2 main objectives: to restore macroeconomic stability; and to ensure social stability. The conditions attached to the arrangement target to reduce fiscal deficit by phasing out energy subsidies, overwatching development spending, and implementing tax policy and tax administration reforms. Moreover, the IMF requires Pakistan to corporate closely with the World Bank. Looking at the stand-by aid in 2023, the IMF tends to implement *steadfast* policy. There are 4 objectives for the program focusing on monetary and fiscal policies[1]. More importantly, the conditions require close oversight of the State Bank's banking system and decisive action. This term echoes with the previous EFF arrangement as the IMF focusing on its surveillance on the State Bank of Pakistan. Although the loans allocated under the recent program are not substantially different from the previous one, the conditions attached with the program have underscored IMF's increasing involvement in Pakistan's economic affairs. The analysis reflects

[1] The program will focus on (1) implementation of the FY24 budget to facilitate Pakistan's needed fiscal adjustment and ensure debt sustainability, while protecting critical social spending; (2) a return to a market-determined exchange rate and proper FX market functioning to absorb external shocks and eliminate FX shortages; (3) an appropriately tight monetary policy aimed at disinflation; and (4) further progress on structural reforms, particularly with regard to energy sector viability, SOE governance, and climate resilience.

amore hands-on approach that the IMF has taken upon Pakistan by monitoring and influencing the nation's financial policies.

Bangladesh:

Bangladesh is another sample country that receives funds from both the Asian Infrastructure Investment Bank (AIIB) and the International Monetary Fund (IMF) from 2016 to 2013. Geographically positioned in South Asia, same region with Pakistan, Bangladesh has also benefited from the fundings provided by both the AIIB and the IMF within the same timeframe. By analyzing Bangladesh's term modification, it sheds light on IMF's change in terms of conditionalities.

According to the historical records of IMF Lending Commitments specific to Bangladesh, there was only one financial arrangement back in 2012 which was before the establishment of the AIIB (IMF2012). The amount for 3-year Extended Credit Facility arrangement is approved for over US$987 million which is the largest amount IMF has signed to Bangladesh by that time (IMF2012). However, since the establishment of the AIIB in 2016, Bangladesh has been accepted fundings from the AIIB every year with multiple projects each year forward. In year 2020 and 2023, Bangladesh received fundings from both IMF and AIIB. Even till right now as of 2024, Bangladesh continues to maintain strong relationship with both international financial organizations.

Shortly after Bangladesh accepted 6 development projects with a collective amount of US$1,324 million financing from the AIIB in 2020, the IMF unexpectedly sanctioned a disbursement of US$732 million and a purchase of US$488 million (33.33 percent of quota) to Bangladesh in May the same year. This financial aid was provided under the Rapid Credit Facility and the Rapid Financing Instrument projects. According to the agreement, the approval is designed for covering the financing gap under the hit of the pandemic. Still, there are strings attached to the two projects. A temporary increase in the fiscal deficit and exchange rate are necessary to ensure transparency and accountability for the measures (IMF 2020). Moreover, once the crisis subsides, the authorities are committed to concentrate on resolving issues within the banking sector, including nonperforming loans and the poor performance of the state-owned commercial banks. They are also dedicated to maintaining fiscal discipline and debt sustainability through expanding the tax base and enhancing tax administration and compliance measures. It is to say that even though the IMF intervened during the pandemic, the program itself has demonstrated the IMF's effort to reassert its influence over financial regulations within Bangladesh. Moreover, after three years, IMF also approves 3 different projects to Bangladesh all in January 2023. They are Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for US$3.3 billion with the immediate disbursement of US$476 million; and US$1.4 billion under the newly created Resilience and Sustainability Facility (RSF). It is surprising to discover that Bangladesh holds the distinction of being the first Asian country to access the RSF (IMF 2023). Furthermore, the significance of these projects is proven by the proportion of quota involved. Specifically, the 42-month ECF/EFF arrangements are equivalent to 231.4 percent of quota, and the RSF arrangement is equivalent to 93.8 percent of quota. More importantly, all three projects have been designed to boost Bangladesh's efforts in adapting climate change and mitigation[2]. These initiatives, 5 projects proven in 3 years, that IMF has been taken highlight its

[2] At the conclusion of the Executive Board's discussion, Ms. Antoinette M. Sayeh, Deputy Managing Director, and Acting Chair, made the following statement: "Access to RSF will provide financing to support Bangladesh's climate change adaptation and mitigation efforts. The RSF reforms will complement reforms under the ECF/EFF by improving climate investment potential, strengthening institutions and enhancing climate-spending efficiency to build resilience and catalyze additional official and private finance." (IMF 2023)

enhancing attempts to regain control in Bangladesh by offering help to overcome the financial challenges.

In April 2012, the IMF approved a 3-year US$987 million ECF arrangement for Bangladesh (IMF 2012e). The same ECF aid was approved in 2020 with also 3-year but US$3.3 billion helps to address macroeconomic stability (IMF 2023). The amount approved increase dramatically. The initial disbursement in 2012 was US$131 million which is much less proportion comparing to the immediate disbursement for the latest program which is about US$820 million in 2023. The program in 2012 has 2 focuses on policy adjustments and structural reforms. The conditions attached to the arrangement requires actions to boost social- and development-related spending, tackle power shortages and the infrastructure deficit, and stimulate export-oriented investment and job growth. Moreover, the IMF requires Bangladesh's central bank to commit to further policy measures. According to the IMF, these actions are *steady but forceful.* Looking at the ECF in 2023, the IMF tries to achieve "a more resilient, inclusive, and sustainable growth" [3]. More importantly, the conditions require authorities to create conducive environment to expand trade and foreign direct investment to enhance the business climate. Besides the significant change in the amount approved, the IMF also enhances its involvement in Bangladesh's social and business structure, enforcing it to be more open to trading. This indicates the attempt that the IMF tries to rebound with Bangladesh.

Jordan:

[3] In this regard, substantial investment in human capital and infrastructure will be needed to achieve Bangladesh's aspiration to reach upper-middle income status by 2031 and meet the Sustainable and Development Goals (SDGs). The authorities recognize these challenges and also the need to tackle climate change issues, which expose the economy to large risks that could threaten macroeconomic stability. (IMF 2023)

Another great example country that that receives funds from both the Asian Infrastructure Investment Bank (AIIB) and the International Monetary Fund (IMF) from 2016 to 2024 is Jordan. Unlike the Pakistan and Bangladesh, Jordan is geographically situated in the Middle Asia. Jordan has an extreme location where it borders Israel, the Palestinian territories, Syria, Iraq, and Saudi Arabia, making it a strategic ally for many countries in terms of regional stability and territorial security. Throughout the observational time frame, Jordan has corporations with both the AIIB and the IMF. Therefore, Jordan's term modification is worth further analysis in order to capture the possible change and IMF's attitude.

Looking at the historical borrowing records of IMF to Jordan, there are total of 5 projects arranged in the past 12 years. Four of them are issued after the establishment of the AIIB. For every four years, there will be a project approved to Jordan from the IMF. The amount for 3-year standby aid is approved for US$2 billion which is the largest amount IMF has signed to Jordan throughout the whole time (IMF) in 2016. Nevertheless, since the establishment of the AIIB in 2016, Jordan has been accepted fundings from the AIIB in year 2021 and 2023. During that period, IMF did not approve any projects to Jordan. Only till 2024 when Jordan suddenly receives financial assistances from IMF again showing the continuous relationships it has with both sides.

After Jordan's engagement in 2 development projects, with a collective amount of US$450 million financing from the AIIB in 2021 and 2023 under sovereign type/economic sector, the IMF unexpectedly reinvigorated its partnership with Jordan by offering a US$1.2 billion (equivalent to 270 percent of quota) in the coming 2024. This financial aid was provided under the Extended Fund Facility. Based on the agreement, the arrangement support the authorities' efforts to achieve stronger, more inclusive growth and job creation. moreover, the condition also requires Jordan to implement the recommendations drafted by the 2023 IMF-World Bank Financial System Stability Assessment to oversee the financial sector. There are many other requirements IMF has proposed in return of the approval EFF project[4]. It is concentrating more on the business environment with a stronger attachment. Most importantly, the IMF asks the Central Bank of Jordan to maintain its prudent policies, which will safeguard the peg to the U.S. dollar and "provided financial stability (IMF 2024). The various and broad corporation IMF is intending to have with Jordan in the name of "financial stability" has further proven IMF's ambitions in strengthening relationship with Jordan

Country receiving funds from AIIB first and then IMF ONLY: Nepal

The case of Nepal is a great example to provide insights as it has been receiving fundings from both international financial organizations at different times. initially, Nepal received fundings from the IMF prior to the AIIB's establishment. After 2016, the AIIB started working with Nepal, providing two projects in year 2019, which are also the only two projects Nepal has received from the AIIB throughout the time. Starting the very next year till 2022, Nepal has received fundings exclusively from the IMF. The country Nepal also located in South Asia, aligning with the other two examples mentioned above, Pakistan and Bangladesh.

Based on the IMF History of Lending Commitments for Nepal, there were financial arrangements in place for the years 2003 and 2015, prior to intervention of the AIIB. In 2003, the IMF approved a 3-year Poverty Reduction and Growth Facility Arrangement for Nepal, total of

[4] "Further progress in implementing structural reforms to improve the business environment and attract private investment is crucial to create a dynamic private sector, foster job-rich growth, and achieve the objectives of Jordan's Economic Modernization Vision. In this regard, strengthening competition, further reducing red tape, and pressing ahead with labor market reforms to increase flexibility, lower youth unemployment, and enhance female labor participation are critical. Donor support remains essential to help Jordan navigate the challenging external environment, host the large number of refugees, and maintain the reform momentum." Was said by the Executive Board's discussion on Jordan, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair

US$72 million, which represents the largest funding amount Nepal has received from the IMF in its history (IMF 2003). Additionally, in 2015, the IMF sanctioned US$49.7 million under the Rapid Credit Facility, being one of its highest amounts in its lending history (IMF 2015).

Nevertheless, a shift occurred in year 2019 when Nepal received fundings from the new constructed AIIB. There were two projects issued that year with total amount of US$202.3 million. They were all in the energy sector: one focuses on Hydropower while the other aims to enhance power distribution. Similar to the IMF, the AIIB evaluates the feasibility, sustainability, and environmental compliance within Nepal.

Nepal then turns to IMF for financial assistance exclusively. Right after the year of 2019, IMF approved US$214 million immediate disbursement to address the challenges posed by the COVID-19 pandemic. The agreement tackled the dreadful impact caused by the pandemic on Nepal's GDP growth, balance of payments, and fiscal stability. The funding, which is equivalent to 100 percent of quota, marked as another historic high peak in its borrowing history with the IMF. In fact, IMF has made statements identifying this program as one of its largest supportive actions under the impact of the pandemic. Nevertheless, in addition to the recovery mission on the COVID, the IMF also emphasized the importance of Nepali authorities' commitment to maintain fiscal and debt sustainability[5]. In this regard, the IMF aimed to close the remaining balance of payments deficit and alleviate the fiscal challenges, which requires the nation to uphold high levels of transparency and governance across all financial management activities. Furthermore, the conditions stipulate that the authorities maintain a commitment to policies that foster inclusive growth and resilience, while enhancing good governance and accountability.

[5] The Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Chair, made the following statement: "The authorities are taking proactive, well-targeted measures to address the human and economic impact of the pandemic, while preserving macroeconomic stability."

IMF financing will address urgent financing requirements and stimulate further support from Nepal's development partners for the COVID-19 response. The timely assistant from the IMF may behind the reason why Nepal has terminated its collaboration with the AIIB, maintaining relationship solely with the IMF.

In January 2022, the IMF approved a 38-month US$395 million under Extended Credit Facility (ECF) for Nepal (IMF 2022). The same ECF arrangement was approved back in 2003 when a 36-month US$72 million was granted to address poverty reduction and growth facility. The recent funding is five times larger than the previous allocation for the same type of project. Moreover, the immediate disbursement in 2003 was approximately US$10 million which is significantly lower comparing to the initial disbursement for the latest program which is about US$110 million in 2022. The program in 2003, Poverty Reduction and Growth Facility (PRGF), is the IMF's concessional initiative aimed at low-income countries. It endorses programs that are rooted in poverty reduction strategies developed by the countries themselves through a participatory process including civil society and development partners. These strategies are detailed in a Poverty Reduction Strategy Paper[6]. On the other hand, the ECF assigned in 2022 stressed the reformation in Nepal's financial sector. The IMF anticipates the decline in Nepal's fiscal deficit to ensure debt sustainability. A comprehensive fiscal structural reform reveals the attention that IMF tries to further enhance fiscal transparency and measures[7]. Since "financial sector regulation and supervision needs to be strengthened", according to the deputy managing director and acting chair Mr. Bo Li, IMF's attempt to penetrate Nepal's financial system is clear.

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[6] PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

[7] Both revenue mobilization and public financial management reforms to address the public investment efficiency gaps, strengthen fiscal risk management, improve public debt and cash management, and help advance fiscal federalism in a fiscally prudent manner.

More importantly, based on the Nepal Times, "the private sector accuses the IMF of interference in Nepal's economic policy" (Kumar 2023). Nepal's officials claimed that nation's economy is in jeopardy due to the strict conditions assigned by the IMF for its loans. The Chair of the Confederation of Nepalese Industries (CNI) Rajesh Kumar Agrwal even warned the IMF to "stay in its lane" (Agrwal 2023). They believe that these *Western lenders'* financial and economic policy reformations do not suit for Nepal's economy. The sudden shift to strict policy regulation identifies the IMF's action to further step in to gain stronger control over Nepal's economic structure.

4.0 Counterarguments

Despite the thorough analysis on each of these four nations, there are still potential counterarguments against the result. First and foremost, while the paper focuses largely on the cases analysis of term alteration, there are various reasons behind the alteration of certain terms/conditions. It might be possible that the IMF changes its conditions individually for its recipients. However, the fact that all four cases have provided similar results proves the low possibilities. Moreover, the world is vigorously hit by the COVID-19 pandemic during this timeframe the paper has focused. This might cause both organizations to act vibrantly. Lastly, the period studied is comparatively short with less 15 years. The motives behind the initiatives might vary as time goes. Since the time frame is relative concise, the available option in case analysis is also limited. There are only 13 countries that fit with the requirement (contain relationships with both organizations). The fact that the population size is not big could create certain biases to the study.

5.0 Conclusion

In 2015, BRICS countries, led by China, signed an agreement to form AIIB and NDB to provide financial aid to member countries. The two multilateral institutions were hailed as rivals to the IMF and World Bank. China's motivation to form these institutions was to counter prolonged alienation by the U.S. and the founding members of IMF and World Bank. AIIB and China faced criticism from the U.S. and its allies for founding an investment bank that created debt-traps and exploited low-income countries. However, these allegations have not stopped AIIB's projects in several countries. Further, the bank's membership stands at 109, which proves that AIIB has become an influential institution, second to the IMF.

My goal in this thesis was to provide evidence that there is systematic competition between the AIIB and the IMF. The analysis between the AIIB and the IMF in terms of their international regimes have shed light into the inevitable competition existing between them. The case analysis leading by Pakistan offers evidence to support the claim that IMF is altering its terms in response to the existence of the AIIB. The alteration in IMF's terms in observation is much more complicated than we expect. There's no absolute saying in whether the terms have turned for better or worse. The evidence indicates significant rises in both the funding amount and the frequency of projects approved. It is to say that when a country start building relationship with the AIIB, the IMF is most likely to increase its offer fundings and frequency. However, the conditions attached is much more complicated. There is variation in different cases. Some conditions have narrower impact while others long for broader control. The commonality in all these cases is that all conditions tend to strengthen IMF's impact by asking for more measures as regulations. They ask for corporation with its national banks in various level. By receiving negative feedback on the *rigorous interference,* it is classified as worse in terms of the alteration for term conditions.

The findings from the case studies lead to the following recommendations. First, China and AIIB should avoid policies and lending practices that led to dissatisfaction with the IMF. This could result in a complicated change in IMF's terms for its recipients. Attractive terms will convince more countries to corporate. Second, AIIB should not confront the IMF directly. The two institutions are competitors, but AIIB's members also support the IMF. AIIB should sell its mandate without displaying hostility towards IMF and the World Bank. Lastly, IMF and AIIB should find ways to cooperate to improve the socioeconomic conditions in developing countries. The world will become a better place if the two institutions work together despite the political differences that inform their policies.

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