Chapter 12
The Governance Ripple: How Environmental Policies Reshape Natural Resource Institutions and Socioeconomic Equity in Resource-Dependent Economies

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ABSTRACT

Environmental policies have evolved from narrow regulatory tools to key instruments of economic governance, affecting resource-dependent economies by influencing extractive sectors, revenue systems, and governance. This chapter introduces the Governance Ripple Framework, viewing environmental policies as institutional shocks that cause sequential fiscal, institutional, and equity effects. Using a qualitative–comparative approach, it analyzes Nigeria, Indonesia, and Chile, illustrating that governance capacity is essential for policy success and inclusive development, highlighting the responsibility of researchers and policymakers. The chapter integrates

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environmental policy, governance, and equity, emphasizing governance capacity as crucial to policy success and offering insights for designing sustainable, inclusive policies in resource-dependent economies.

1. INTRODUCTION

Environmental policy has increasingly evolved from a peripheral regulatory concern into a central instrument of economic governance, fiscal restructuring, and institutional transformation. Governments across both developed and developing economies are adopting environmental fiscal tools such as carbon pricing, green taxation, subsidy reforms, and regulatory standards not only to address climate change and environmental degradation but also to realign economic incentives and public finance systems toward sustainability objectives. Recent evidence indicates that these policies exert effects well beyond environmental outcomes, shaping fiscal capacity, institutional behavior, and long-term development trajectories (Ezquerro et al., 2024; Shahzad et al., 2024).

These governance implications are particularly pronounced in resource-dependent economies, where natural resource rents remain a dominant source of public revenue and political power. In such contexts, environmental policies interact directly with extractive industries, rent distribution mechanisms, and fiscal structures, thereby influencing institutional accountability, decentralization, and social cohesion. Studies demonstrate that natural resource dependence, when coupled with weak governance, amplifies inequality, environmental degradation, and institutional fragility. In contrast, strong institutional quality can mitigate these adverse effects and transform resource wealth into sustainable development gains (Abdulahi et al., 2025; Bambi et al., 2024). This transformation reflects broader structural shifts in global economic governance. As climate risks intensify and traditional extractive growth models face fiscal and ecological constraints, governments, particularly in resource-dependent economies, have increasingly turned to environmental policy to manage revenue volatility, strengthen institutional accountability, and maintain social stability.

Environmental instruments such as carbon pricing, subsidy reform, and green taxation have thus moved beyond environmental regulation to become integral components of fiscal and governance reform agendas. Despite growing attention to environmental fiscal reform, much of the existing literature continues to treat environmental performance, governance quality, and socioeconomic equity as analytically separate domains. Recent studies emphasize that fiscal and environmental policies produce policy feedback effects, whereby institutional quality conditions whether reforms enhance transparency and inclusiveness or exacerbate rent-seeking and