

SOLVING THE SWEATSHOP PROBLEM:
A GAME-THEORETICAL ANALYSIS

by

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INTRODUCTION

Why do corporations operate sweatshops, and why do nations allow them to exist within their borders? Furthermore, why do consumers, especially those interested in social justice issues, continue to purchase goods that originate in sweatshops? This project focuses on the decision-making processes that answer these questions, and analyzes the factors that allow sweatshops to survive.

According to author Matt Zwolinski, “the precise meaning of the term ‘sweatshop’ will vary depending on context. Historical and legal definitions have their place, but usually our description of a certain producer as a sweatshop will reflect a *moral* judgment.”¹ There is no predominant international definition of the term “sweatshop,” creating difficulty in defining the problem on an international scale. The United States Government Accountability Office (GAO)² defines a sweatshop as “an employer that violates one or more federal or state labor law governing minimum wage and overtime, child labor, industrial homework, occupational safety and health, workers’ compensation, or industry registration;”³ however, this definition applies solely to American law. Within the United States, the specificity of this definition allows for effective enforcement, but this effectiveness falls short in an international context. Thus, for the purposes of this study, a sweatshop may be defined as a means of manufacturing which violates

¹ Matt Zwolinski, “Sweatshops – Definitions, History, and Morality.” 2006, http://home.sandiego.edu/~mzwolinski/Sweatshops_essay_web.pdf.

² At the time of this report’s creation, the GAO was operating under the name of United States General Accounting Office.

³ United States General Accounting Office, “Garment Industry: Efforts to Address the Prevalence and Conditions of Sweatshops.” 1994, <http://www.gao.gov/archive/1995/he95029.pdf>.

international laws and/or international norms, such as unsafe working conditions, just compensation, and child labor.

This sweatshop problem can be seen in current events in addition to world history. As of October 2012, Foxconn, also known as the Hon Hai Precision Industry Co., Ltd., has been accused of multiple human and workers' rights violations in the operation of its Chinese factories, bringing the company to global attention with workers' protests, riots, and a rash of suicides and suicide attempts during the summer of 2010.⁴ However, the corporation remains profitable, as people continue to purchase these goods while the nation allows the practice. Why? To answer these questions, this study utilizes two simultaneous-move games to examine the decision-making processes of three player groups: countries, consumers, and companies. Through an analysis of motivations and bargaining strategies of these three player groups, we are able to understand historical behavior and make predictions on what's next for Foxconn and China.

The initial game, known as the Standing Sweatshop Game, and its variation, or the Caring Consumer Game, allow for interpretation of player's actions through an analysis of the payoffs surrounding the operation of a sweatshop. In the case of countries, a nation must choose between reaction and non-reaction to the existence of a sweatshop within its borders. With regards to companies, one must decide based on the potential costs and benefits if the operation of a sweatshop is worthwhile or necessary to the company's survival. Finally, the consumer comes into the picture by deciding whether or not to purchase the good.

⁴ David Barboza, "After Suicides, Scrutiny of China's Grim Factories." 2010, <http://www.nytimes.com/2010/06/07/business/global/07suicide.html?pagewanted=all>.

After an introduction to the game, I test its usefulness in several cases. First, I examine Indonesia as an example of the initial game, in which sweatshop production continued. Next, I examine Honduras as a fulfillment of the alternative game, generating the opposite outcome – the relevant sweatshop was closed. Finally, I use the game to discuss the ongoing situation of Foxconn in China.

LITERATURE REVIEW

In examining the sweatshop problem, consideration must first be given to existing scholarship on the corporate use of sweatshops, as well as their economic and social implications for the player groups of countries, companies, and consumers. While many see consumer activism as a prominent factor in the elimination of sweatshops, author Jeff Ballinger describes a so-called myth in the potential mindset of consumers—that global corporations carefully monitor rights violations out of fear of public outcry, which could subsequently harm business prospects. His categorization of this mindset as a myth suggests potential payoffs for companies, with such payoffs defined by his argument of “social audits” that may be “easily manipulated”⁵ in order to disguise the problem. Thus, Ballinger argues Corporate Social Responsibility (CSR) advocacy, potentially affecting consumer action, is often ineffective. Mobus (2012) adds to this viewpoint, noting the possibility of manipulation in company reporting. Referred to as “green washing,” Mobus argues companies are able to “present their best CSR profiles while withholding less favorable performances.”⁶ Such practices could allow manufacturers to reap the benefits of CSR, while simultaneously gaining benefits of sweatshop labor. Demetrious and

⁵ Ballinger 2011, 55.

⁶ Mobus 2012, 35.

Hughes (2006) add to the discussion through analysis of the so-called “PR spin”—the approach is from a technological standpoint, but argues such “spins” render CSR moot. Their study notes “traditional public relations seeks to manufacture consent, rather than create genuine dialogue, and it continues to create suspicion and cynicism.”⁷

Santoro (2009) states similar concerns regarding CSR, noting its reduced role in solving the sweatshop problem. As Ballinger states, subcontractors and public relations can manipulate audits, rendering attempts to stop workers’ rights violations ineffective. These concerns are echoed by Chan (2010), who argues “international support can certainly play a part, but there is no sign that Western corporations will support radical activism.”⁸ Thus, a dominant school of thought suggests that consumers are not an important factor in the decision by companies to open sweatshops.

However, this is not the only approach. Contrary to the opposing school of thought, characterized by disbelief in the role of CSR, Drakulich (2012) emphasizes transparency in the company’s reporting, noting its potential effects a company’s behavior. Attharangsun and Ratchatawetchakul (2012) concur, finding higher loyalty, consumer satisfaction, and a positive corporate image to be positively correlated with CSR in case studies of Thailand, thus increasing its influence in a company’s potential behavior. Additionally, “naming and shaming” campaigns have been found to have a negative impact on a company’s profit.⁹ Thus, while some find consumers to lack influence in the existence of sweatshops, many find CSR persuasive in establishing consumer payoffs that benefit the company.

⁷ Demetrious and Hughes 2006, 93.

⁸ Chan 2010, 272.

⁹ Brill, Ferling, and Reder 1993, 54.

Though discussion regarding the effectiveness of CSR, public perception, and the potential benefits of sweatshops is present within the academic community, there is little analysis concerning the factors within the decision-making process. Additionally, as the case of Foxconn in China is still under development, at present no scholarship addresses their decision-making regarding working conditions, nor is there existing analysis on China's involvement with Foxconn. Finally, though Apple has released a statement of investigation into Foxconn's use of sweatshops, there is little indication of whether this has affected consumer attitudes or behavior, or if this would affect it at all. This study aims to test the game in historical circumstances, finding the distinguishing factors in two possible outcomes: "sweatshop" and "no sweatshop." Additionally, this study will analyze the case of Foxconn and China, using the game in making predictions for the future.

INTRODUCTION TO GAME

There are three predominant groups of players in this game—countries, companies, and consumers. In order to best understand their actions, a sequential move game will be used to model the decision-making processes of each player group. In this game, it is the nation that moves first, operating under the knowledge that a company is planning to operate a sweatshop within its borders.¹⁰ This nation has two options—react, or don't react. A reaction is categorized as negative toward the company, since it would result in negative action against the sweatshop. However, should the nation decide not to

¹⁰ The company has two choices—operate sweatshops, or don't operate sweatshops. This game assumes the former option has been chosen by the company, for if they were to choose the latter, the game would effectively end before its beginning, rendering the decisions of the other two groups moot.

react, the next move belongs to the consumers. They are given two options regarding the product—purchase, or don't purchase.

The primary factors in the nation's decision are international reputation, economic well-being, and welfare of citizens. Should the nation react and refuse to let the company operate a sweatshop, there may be a high reputational payoff. The benefit of appearing strong in issues of human rights may come to the country, resulting in increased credibility and reputation within the international community. The welfare of the citizens will additionally be increased through the prevention of rights violations. However, the nation's economic payoff will be lower, and the nation will not gain economic benefits such as increased tax revenue and an increase in exports and GDP.

On the other hand, the nation has another option—it can choose not to react and thus allow a sweatshop to begin production within its borders. In this scenario, individuals who might have been unemployed may now find themselves with work. Even though the rate of pay is low, if an individual were having difficulty finding work, the job creation payoff would nevertheless come to the country. This payoff would be increased by the nature of work found in the sweatshop—if the sweatshop requires little to no training or education, it becomes easier for an individual to enter the workforce. The nation would additionally have the opportunity to tax the corporation operating within its borders, and would be positively affected by an increase in exports.¹¹ However, there is also a degree of severity related to this payoff—depending on working conditions, the benefits of this job may be cancelled out. Additionally, the nation loses the reputational

¹¹ The rapid nature of this payoff, which raises the GDP in this circumstance, works both ways. The nation may also exit the marketplace if the good's demand falls, decreasing the risk of investment and allowing the nation to remove themselves quickly from production of a failing product.

advantage of reacting to the sweatshop, and can suffer diplomatically and amongst consumers. Sanctions may be brought against the nation in forms of trade or foreign aid reduction, and subsequent treaties, negotiations, and other forms of international diplomacy may suffer as a result of allowing human rights violations to occur.¹²

Should the nation decide to react, the game effectively ends, at least temporarily, and the company has not placed or operated a sweatshop within the nation's borders. However, this choice does not necessarily constitute the true ending of the game. The company goes back to its first decision, which was initially assumed. If the company makes the same decision of operating a sweatshop once again, the game re-starts, and if it decides not to operate, the game once again ends. In this scenario, no sweatshops are opened or operated, and the other player groups do not come into the game. If, however, the company does decide to operate a sweatshop, it can either re-start the process with the same nation, or move on to a different nation. In this scenario, the move subsequently returns to the decision of the newly involved nation.

Once the company and nation have made their decisions, the consumer comes into play. Consumers have two choices—consume, or not consume. If the consumer chooses to purchase the goods, they will gain an economic benefit of acquiring a cheaper product.¹³ Factors of quality and popularity enter the game at this point—consumers make decisions partially based on the quality of the product, and in some cases will pay

¹² Sanctions, however, have controversial effectiveness. In an ideal scenario, sanctioning a nation will reverse this nation's behavior, but each nation responds to the threat or practice of sanctions differently. This response may eliminate the negative consequences of the sanctions, depending on the nation and circumstance.

¹³ Customer demand and the nature of the product may take this payoff further. A consumer choosing to purchase a good half the price of its competition may eventually purchase more of the product, increasing demand for the cheaper product.

more for more durable or effective goods. Popularity and style are also factors, motivating consumers to follow trends in their purchasing habits. If the decision not to consume is made, however, the payoff comes from a combined reputational benefit and reward from increased conscience. Though conscience may not typically be attractive enough to influence a decision on its own, it can become a tipping point if cost and quality render the options similarly situated. Economic incentives, reputation, and conscience are thus incorporated into the payoffs of consumption.

If the consumer elects to consume, the game will effectively end with the operation of a profitable sweatshop. In this scenario, it is assumed that the majority of consumers have either acted in a similar manner, or, failing this, a necessary amount of purchasing to keep the company in business has occurred. However, the game could continue with the company, which can re-start the process by either opening more sweatshops in the same nation or moving on to a new nation. On the other hand, if the consumer does not choose to consume the product, the move once again returns to the company. It can either cease production in its current form, hoping to re-gain customers with a new production and subsequent marketing strategy, or it may simply cut those losses and continue operating the sweatshop. If the company decides to cut its losses, the game has ended with the operation of a sweatshop. If the company decides not to cut its losses and instead re-evaluate its production process, the game ends with an outcome of no sweatshops. This can occur either by the reformation of an existing sweatshop, improving working conditions so the term no longer applies, or by the creation of a new

factory.¹⁴ However, no matter the decision of the company, consumer involvement has come into the picture at this point in the game, causing an inevitable reputational cost to the company.

The Standing Sweatshop Game

In addition to an analysis of the game's nature, the payoffs must be assigned values proportionate to their outcomes. This model uses the traditional payoff structure of 1, 2, 3, and 4, with 4 being the most desirable outcome and 1 being the least. The game's payoffs are thus assigned to each possible outcome of the game—initially, this gives us the Standing Sweatshop Game, with the following payoffs and an outcome of sweatshop labor that is allowed to stand.

	Country	Consumer	Company
Country: react Consumer: N/A Company: N/A	1	0	0
Country: don't react Consumer: purchase Company: N/A	3	3	4
Country: don't react Consumer: don't purchase Company: reform	2	2	-1
Country: don't react Consumer: don't purchase Company: don't reform	0	1	-4

¹⁴ Once again, the creation of a new factory takes the company back to the game's beginning. However, we may still categorize this as "no sweatshops," since we are referring to the specific production facility under analysis rather than the company's factories as a whole.

Beginning with the country, the choice is between reaction and no reaction.

Reaction would not bring the sweatshop into the nation, so the nation would get a benefit of 0 in the economic category, as no action has occurred. However, it would reap the reputational benefits of disallowing the sweatshop, and would increase citizen welfare by preventing a potential rights violation. This gives the nation an overall payoff of 1 for reaction. On the other hand, if the nation decides not to react and consumers decide to purchase the product, the nation receives the highest possible economic benefit from the sweatshop's presence in the country. Though they lose 1 for the cost to its reputation and citizens, this payoff of 3 for the nation is its most desirable option. Slightly less desirable is non-reaction on behalf of the nation, followed by a lack of consumption and subsequent company reformation. In this scenario, a point is lost for lack of consumption and initial damage to reputation, but the delayed economic success and eventual return to an outcome of reformation¹⁵ gives the nation a payoff of 2. Finally, a nation will gain 0 if no reaction occurs, no consumption follows, and the company does not reform. From an economic standpoint, in this situation, the nation neither loses nor gains.

The consumer's payoffs may be analyzed in a similar manner. If the nation reacts, the consumer does not gain a payoff, since they have not entered the game. However, should the consumer choose to purchase the goods, they will receive a payoff of 4 for saving money, but will incur a payoff of -1 in the reputation/conscience category. This brings the consumer payoff for consumption to 3. On the other hand, should the consumer elect not to purchase the product, there will be a benefit of 4 in the

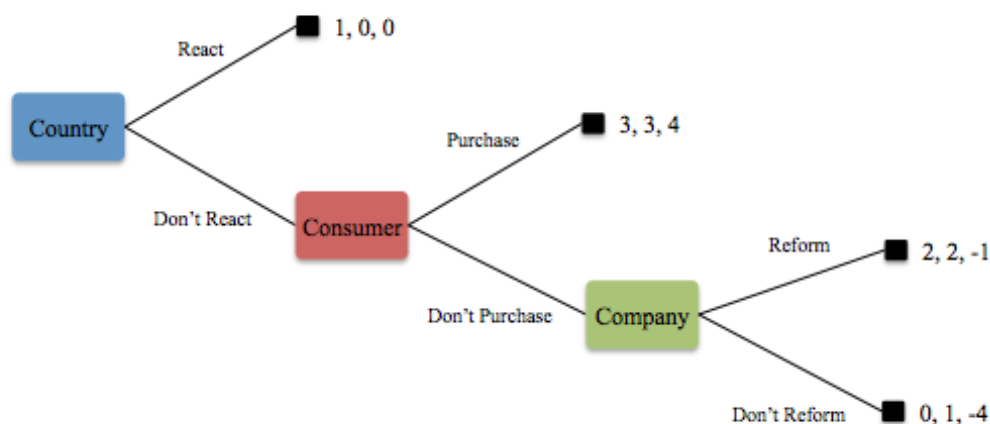
¹⁵ Reformation, once again, leads to an outcome of "no sweatshop." The company may open a new factory elsewhere, or may reform its existing manufacturing process.

reputation/conscience category. However, there will be a cost of -2^{16} in the economic category, bringing the overall payoff to 2 for not consuming if the company reforms and 1 if the company does not reform. This is due to an added reputational benefit—should the consumer be a participant in an action that leads to the end of a sweatshop, they will reap a higher reputational benefit than if they were not. In this model, the most desirable choice for the consumer is thus to purchase the good, if the company decides to use the sweatshop and the nation decides not to react.

While the country and consumer have payoffs closer in value, the company has the most dramatic payoffs. In the first scenario, in which the nation chooses to react, the company receives a neutral payoff of 0 as they have not entered the game. The second scenario, in which the nation does not react and the consumer elects to purchase the good, gives a payoff of 4 to the company—by far its most attractive option. Consumers are purchasing the good in this situation, and there is no reaction on behalf of the nation to block production. However, the company can lose profit in the third option, where nations do not react, consumers do not purchase, and the company is forced to reform. A payoff of -1 can be seen here—though the product was not initially profitable, the option of reformation prevents the company from experiencing a total loss. This total loss of -4 can be seen in the fourth and final option for the company, where no country reaction, no consumer purchases, and a decision not to reform manufacturing leaves the company with absolutely no payoffs whatsoever. This is by far the worst outcome for the company,

¹⁶ In this model, 2 are deducted rather than one. This is due to the fact that reputational costs are typically valued less than economic benefits, as an individual will not choose the reputation-building option unless there is a significant chance of reputational harm. However, this become a snowball effect—the less influential reputation is to one individual, the less likely that individual will be to hold others to that standard.

and as such the company will avoid it at all costs. These payoffs may be seen in the game tree below.



In solving, the most likely option here is no reaction on behalf of the country, purchasing on behalf of the consumer, and no additional necessary action on behalf of the company. In short, companies involved in a game with these payoffs would open sweatshops. However, what if consumers valued their reputation and conscience more? How would that change the outcome? To answer these questions, I propose a second game, which I call the Caring Consumer Game.

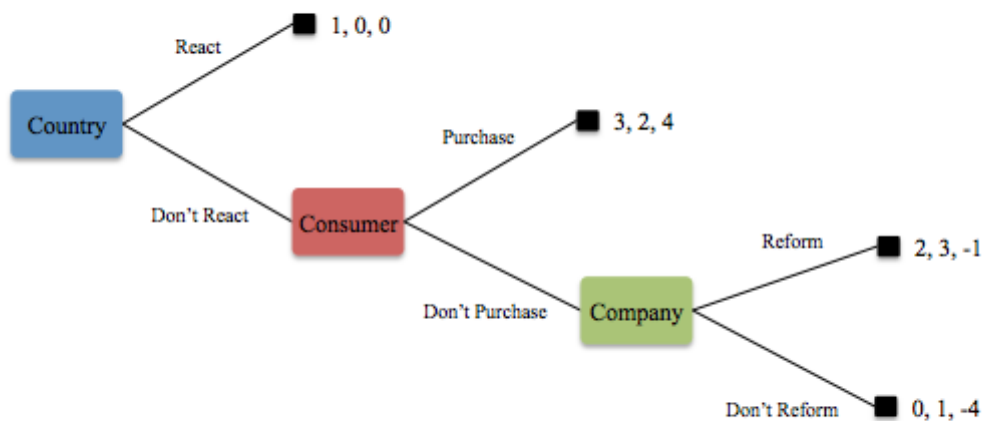
The Caring Consumer Game

The fewer individuals are aware of rights violations, the less likely it is for reputation to become an issue for the consumer. Conversely, the more people that become aware of a pattern of rights violations, the more likely it is that reputation will

begin to matter. Increasing trends in corporate social responsibility (CSR) push the reputational benefits over the edge, joining individual consumers in growing patterns of accountability and reputation-based decision-making. This effectively reverses the payoffs of the previous scenario—rather than adhering primarily to economic incentives, the consumer will favor reputational benefits. Instead of earning a payoff of 3 in the purchasing option, the consumer gains a payoff of 2, as an additional point is removed for increased reputational cost. On the other hand, following a decision not to purchase, the consumer earns a payoff of 3 rather than 2. An additional point is added for increased reputation, which is more persuasive in this case than in the previous model. This alternate option's payoffs are laid out below.

	Country	Consumer	Company
Country: react Consumer: N/A Company: N/A	1	0	0
Country: don't react Consumer: purchase Company: N/A	3	2	4
Country: don't react Consumer: don't purchase Company: reform	2	3	-1
Country: don't react Consumer: don't purchase Company: don't reform	0	1	-4

In the second, alternative option, the consumer will elect not to purchase the good due to added media attention, scrutiny, and effect on buyer attitudes. This may occur initially, depending on the severity of the rights violations, or it may become the result of increased reporting, rights violations, or consumer activism. This option’s payoffs are thus incorporated into the game, changing the outcome and most desirable option overall.



In this situation, the consumer has chosen not to purchase the good. At this point, the company has two options—reform, or don’t reform. A lack of reform generates a payoff of -4, as they lose both reputational and economic payoffs. Reform, on the other hand, provides a payoff of -1. There is a loss of reputation and, initially, a loss of profit, though the economic costs do not necessarily persist. Should the company reform, they are given the ability to market themselves as socially conscious, bringing a potential increase in profit once again. This option is ultimately more desirable than non-reaction, which brings a total loss to the company. The game ends with non-reaction on behalf of

the country, a lack of purchasing on behalf of the consumer, and reformation by the company—an outcome of “no sweatshop.”

Based on the above analysis, I suggest that we are most likely to see movement away from sweatshops when things like increasing concern with reputation, an increase in trends of CSR, and increased media attention can all pull consumer preferences toward the second game, where sweatshops are abolished. We may now turn to real-world tests of my theory in both Indonesia and Honduras. If my theory is correct, then the key difference between Indonesia (where sweatshops persisted for a long time) and Honduras (where sweatshops were abolished) will be a combination of consumer attentiveness and incentives toward CSR.

INDONESIA AND NIKE: A TEST OF THE INITIAL GAME

While a world leader in athletic equipment, Nike has historically faced numerous allegations of human rights violations, specifically in Indonesia. Looking first to economics, Indonesia has grown as a leader in emerging markets, boasting a GDP of \$846.45 billion in 2011.¹⁷ However, such success has not historically been a constant for the nation—in the mid-1960s, Indonesia was in the midst of the movement toward its New Order.¹⁸ This movement removed the first president of Indonesia, President Sukarno, and established a new government under Sukarno’s successor, President Suharto. Under Sukarno’s rule, the nation saw a newly implemented form of “guided

¹⁷ International Monetary Fund, “Indonesia: Gross Domestic Product, current prices (U.S. Dollars).” 2011, <http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weorept.aspx?sy=2010&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&c=536&s=NGDPD&grp=0&a=&pr.x=79&pr.y=8>.

¹⁸ Hans Antlov, *Elections in Indonesia: The New Order and Beyond* (RoutledgeCurzon: London, 1994).

democracy,”¹⁹ in which a blend of nationalism, religion, and communism sought to oppose Western democratic ideals, replacing them with an attempt to appease Indonesia’s military, Islamic population, and communist-affiliated citizens. However, economic crisis occurred in August of 1959, when the Indonesian government announced its attempted reversal of inflation. At this time, a large-scale devaluation of currency on behalf of the government plummeted the rupiah exchange rate, decreasing it up to 74.7%.²⁰ Not only was currency facing devaluation, but government expenditures in the early 1960s begun rising steadily.²¹ To combat this, the government in 1965 issued new banknotes compressing the value of its currency.²²

In addition to economic factors, there are a variety of legal considerations regarding Indonesia. For example, the government has seen no concrete, internal legislation aimed at the prevention of child labor. Rather, we see almost the opposite—the Ministry of Manpower Regulation, No. PER-01/MEN/1987, legalizes the employment of children under the age of 14 in certain conditions.²³ Overall, Indonesia has passed a minimum wage law, Act No. 1 of 1951,²⁴ and has only recently begun addressing children’s rights. However, this includes primarily international law, including ratification of the International Labour Organization (ILO) Convention No. 182, known

¹⁹ Ibid.

²⁰ Bank Indonesia, “History of Bank Indonesia: Monetary Period from 1959-1966.” <http://www.bi.go.id/NR/rdonlyres/8236D48A-1175-43A9-B521-2CFD974AD49E/1284/MicrosoftWordHistoryofMonetaryPeriod19591966.pdf>

²¹ Ibid.

²² Ibid.

²³ Sonia Rosen, *By the Sweat and Toil of Children Volume I: The Use of Child Labor in U.S. Manufactured and Mined Imports* (United States Department of Labor: Bureau of Internal Labor Affairs, 1994), 99.

²⁴ Ibid.

as the Worst Forms of Child Labour Convention,²⁵ and ILO Convention No. 138, regarding minimum age. The nation has additionally ratified ILO Convention No. 81 concerning labor inspection,²⁶ but many report a shortage of such inspectors within Indonesia.²⁷ Additionally, the United Nations Children’s Fund (UNICEF) reports little enforcement of workers’ and children’s rights laws, calling for an increased level of adherence to such laws.²⁸

Finally, the consumer must be taken into account. At this time, there was a significant lack of public awareness—in the mid-1960s, during Indonesia’s movement away from guided democracy, economic transformation, and failure to improve labor laws, consumers as a whole were less aware of workers’ rights violations. According to author B.J. Bullert, it was not until 1989 that the Asian American Free Labor Institute – Indonesia (AAFLI) began investigating labor rights violations in international manufacturing, and not until the early 1990s that consumer awareness of these rights violations became apparent.²⁹ It was also around this time that some of the most prominent anti-sweatshop activist groups were formed, such as the National Labor Committee in 1989³⁰ and the International Labor Rights Forum’s SweatFree

²⁵ International Labour Organization, “NORMLEX Information System on International Labour Standards.” 2012, <http://www.ilo.org/dyn/normlex/en/f?p=1000:1:0::NO:::>

²⁶ International Labour Organization, “CO81 – Labour Inspection Convention, 1947 (No. 81). http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312226:NO.

²⁷ Ibid.

²⁸ United States Department of Labor, “Indonesia.” <http://www.dol.gov/ilab/media/reports/iclp/sweat/indonesia.htm#32>.

²⁹ B.J. Bullert, “Strategic Public Relations, Sweatshops and the Making of a Global Movement.” 1999, http://depts.washington.edu/ccce/assets/documents/bj_bullert/strategic_public_relations.pdf.

³⁰ Currently known as the Institute for Global Labour and Human Rights. Institute for Global Labour and Human Rights, “About Us.” <http://www.globallabourrights.org/about>.

Communities in 2003.³¹ Thus, before awareness began to rise, consumers purchased these goods with no knowledge of the sweatshop problem.

In the case of Indonesia, we find evidence to demonstrate an example of the Standing Sweatshop Game. The nation, seeking economic benefits, elected not to react to Nike's operation of sweatshops, and low levels of consumer awareness largely removed the reputational payoff from the decision-making process. Nike had no payoffs in reform, and thus, ended the game with a decision to continue production. The country, with non-reaction, benefitted economically, and the consumer has benefitted financially, with the lack of possibility for reputational costs. Finally, the company benefitted from avoiding reform to their currently profitable manufacturing process. Thus, the lack of country reaction and consumer adherence to reputation led as predicted to a fulfillment of the Standing Sweatshop Game in the case of Indonesia. The game has ended with the outcome of "sweatshop."

THE ROLE OF CONSUMER AWARENESS: EVOLUTION TOWARD THE CARING CONSUMER GAME IN HONDURAS

In some cases, we may see a nation that does not react to the presence of sweatshops, followed by the so-called "caring consumers" who act on reputation rather than economic benefit. In this case, sweatshop labor may cease, as the manufacturing strategy is no longer profitable for the company in question. This acts as a "tipping point" in the game, evolving from the Standing Sweatshop Game into the Caring Consumer Game. It is my hypothesis that this process occurred in the case of Kathie Lee Gifford's

³¹ SweatFree Communities, "About Us." http://www.sweatfree.org/about_us.

Wal-Mart clothing line, which the Institute for Global Labour and Human Rights³² reported as violating multiple workers' rights in 1996.

In the mid-1990s, Wal-Mart began producing the clothing line within Honduras. At this time, the Dominican-Republic – Central America Free Trade Agreement (DR-CAFTA) had yet to enter into existence, and the nation still faced economic obstacles. However, economics was not the only factor—media attention was additionally growing prevalent. Charles Kernaghan, executive director of the Institute for Global Labour and Human Rights, gained an international reputation as “the man who made Kathie Lee cry”³³ in his presentation of sweatshop allegations before the US Congress.³⁴ While maintaining lack of knowledge of the alleged rights violations,³⁵ Gifford and her line saw a lack of desire for attachment to the product. Following an announcement of full investigation and reformation of labor practices, the sweatshops were reformed.

Perhaps one factor helping the activists in this case was the fact that the Kathie Lee Gifford line was a small part of a competitive clothing market, in which a consumer may easily purchase similar goods from a plethora of suppliers. However, had a less common product with higher demand been a part of the line, there may have been a different outcome. This case study illustrates the need for consumers to have other, accessible options, for if the demand for the good cannot be met elsewhere, there is little possibility of reputational payoffs exceeding economic factors. However, in this situation, we were able to see the Caring Consumer Game fulfilled in the case of Wal-

³² Formerly known as the National Labor Committee.

³³ Lynne Duke, “The Man Who Made Kathie Lee Cry.” 2005, <http://www.washingtonpost.com/wp-dyn/content/article/2005/07/30/AR2005073001413.html>.

³⁴ Ibid.

³⁵ Russell Mokhiber, 1999.

Mart, Honduras, and Kathie Lee Gifford. In the second case, we find an increase in consumer attention and CSR campaigns provide a positive effect, moving the Standing Sweatshop Game toward the Caring Consumer Game. This element was absent in the former case, in which the sweatshop problem continued.

CHINA, FOXCONN, AND BEYOND: THE QUESTION OF CHANGE

As this theory has proven useful in explaining what has happened in several different countries historically, it is now imperative to ask what it suggests about the future. What's next in the specific case of Foxconn and China? Foxconn, which has been in existence since 1974,³⁶ has faced multiple allegations of workers' rights violations within China. While, as of May 2010, Foxconn has maintained their factory is "definitely not a sweatshop,"³⁷ many investigative journalists³⁸ and human rights interest groups, such as China Labor Watch,³⁹ have reported on rights abuses within the company's manufacturing processes. Additionally, a rash of suicides in the summer of 2010 occurred on the Foxconn campus, bringing international attention to the company's practices in this specific case.⁴⁰

Looking first to economic indicators, we find within China a nation argued by many to be the world's foremost emerging economic superpower, boasting a 2012 GDP

³⁶ Foxconn, "About Foxconn." http://www.foxconn.com/GroupProfile_En/GroupProfile.html.

³⁷ Laura June, "Foxconn CEO: 'We are definitely not a sweatshop.'" 2010, <http://www.engadget.com/2010/05/25/foxconn-ceo-we-are-definitely-not-a-sweatshop/>.

³⁸ Eddie Wrenn, "'Humiliating punishments for working too slow, bars on the window and squalid dorms': Inside the factory that makes the iPhone 5." 2012, <http://www.dailymail.co.uk/sciencetech/article-2202170/iPhone-5-release-Inside-shocking-conditions-Foxconn-factory.html>.

³⁹ China Labor Watch, "The Tragedy of the Foxconn Sweatshop." <http://chinalaborwatch.org/pro/proshow-98.html>.

⁴⁰ Barboza, "After Suicides, Scrutiny of China's Grim Factories."

of \$12.38 trillion.⁴¹ As found by a 2011 RAND Corporation study,⁴² “each country’s role on the world stage will be affected by the progress that it makes and by the competition and cooperation that develop between them.”⁴³ In his book *The Chinese Economy: Transitions and Growth*,⁴⁴ author Barry J. Naughton illustrates China’s economic successes in this role, elaborating on the nation’s strengths and projecting a continuing growth within the nation’s economy.

In addition to economics, the International Labour Organization (ILO) has compiled a variety of statistics on working conditions within China, utilizing three primary legal indicators: minimum wage rates, working time, and maternity protection.⁴⁵ According to the ILO, there are a number of regulations pertaining to the Chinese minimum wage,⁴⁶ as well as working time⁴⁷ and maternity protection.⁴⁸ Among these regulations are the Labor Law of 1994, Regulations on Minimum Wages (Order of the Minister of Labour and Social Security No. 21), and the 2007 Labor Contract Law of the People’s Republic of China,⁴⁹ all of which aim to increase rights of workers within

⁴¹ Central Intelligence Agency. “The World Factbook: China.”

<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>.

⁴² Charles Wolf, Jr. et. al. “China and India, 2025: A Comparative Assessment.” 2011,

<http://www.rand.org/pubs/monographs/MG1009.html>.

⁴³ Ibid.

⁴⁴ Barry J. Naughton, *The Chinese Economy: Transitions and Growth*. (United States: MIT Press, 2007).

⁴⁵ International Labour Organization. “TRAVAIL Legal Databases—Legal Indicators for Decent Work.” 2011, http://www.ilo.org/dyn/travail/travmain.lIndicators?p_lang=en.

⁴⁶ International Labour Organization, “China – Minimum Wage – 2011.” 2011, http://www.ilo.org/dyn/travail/travmain.sectionReport1?p_lang=en&p_countries=CN&p_sc_id=1&p_year=2011&p_structure=1.

⁴⁷ International Labour Organization, “China – Working Time – 2011.” 2011, http://www.ilo.org/dyn/travail/travmain.sectionReport1?p_lang=en&p_countries=CN&p_sc_id=1001&p_year=2011&p_structure=2.

⁴⁸ International Labour Organization. “China – Maternity Protection – 2011.” 2011, http://www.ilo.org/dyn/travail/travmain.sectionReport1?p_lang=en&p_countries=CN&p_sc_id=2000&p_year=2011&p_structure=3.

⁴⁹ Ibid.

China. However, while China has ensured these legal provisions, such as minimum wage preservation and provisions surrounding the rights of workers in labor contracts, they are not always enforced.⁵⁰ This can contribute to the growing problem of rights violations.

In addition to legal provisions, media attention may become a prevalent factor. Apple has typically been the company most closely associated with Foxconn, though it is certainly not the only consumer of Foxconn goods. Balfour and Culpan (2010), writing for Bloomberg Businessweek Magazine, introduced Foxconn founder and chairman Terry Gou as “The Man Who Makes Your iPhone,”⁵¹ though Sony and Dell are also mentioned in the first paragraph of the story. CNN reports “Apple tends to get singled for criticism when abuses come to light,”⁵² though many manufacturers rely on Foxconn to supply technological components. To address this, Apple has issued several press releases and statements.⁵³ Additionally, Holbrook (2010) and Chen, Cheng, and Yip (2011) discuss the impacts of reported Foxconn rights abuses on consumers, specifically in relation to the 2010 suicides on Foxconn’s 40,000-employee campus.⁵⁴ Chen et al. focus on the media’s psychological impact on workers, while Holbrook notes Foxconn media attention and its impact on consumers. Holbrook does not see this media attention

⁵⁰ The State Department’s Human Rights Report on China for 2011 listed a number of human rights violations, not limited to labor conditions and sweatshop abuse. State Department Bureau of Democracy, Human Rights, and Labor, “Country Reports on Human Rights Practices for 2011: China (includes Tibet, Hong Kong, and Macau).”

<http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?dliid=186268>.

⁵¹ Frederik Balfour and Tim Culpan, “The Man Who Makes Your iPhone.” 2010, http://www.businessweek.com/magazine/content/10_38/b4195058423479.htm#p1.

⁵² Philip Elmer De-Witt, “Apple factory inspections turn up scores of labor violations.” 2012, http://tech.fortune.cnn.com/2012/01/13/apple-factory-inspections-turn-up-scores-of-labor-violations/?hpt=hp_t3.

⁵³ The most recent statement to date is the 2012 Apple Supplier Responsibility Progress Report. It has been cited in multiple news stories, including Elmer-DeWitt’s aforementioned CNN article. Apple, “Apple Supplier Responsibility: 2012 Progress Report.” 2012, http://images.apple.com/supplierresponsibility/pdf/Apple_SR_2012_Progress_Report.pdf.

⁵⁴ Holbrook 2010, 6.

as ineffective, but also does not see it as purely effective in reducing violations of workers' rights. Joining this discussion is Drakulich (2012), who argues the Apple audit⁵⁵ of Foxconn practices in early 2012 will play a role in the company's future behavior.

Though the possibility of evolution toward the Caring Consumer Game exists, China differs from many other nations in which this model may be applied. When it comes to consumer behavior, awareness techniques such as social media campaigns may be less effective—within China, social media sites such as Facebook and Twitter are not accessible.⁵⁶ Thus, China finds itself in a differing social context, in which spurious factors may impact results. The reputational benefits found in the Kathie Lee Gifford case may impact consumer behavior within China, but this influence is not absolute. Other factors contributing to consumer attitudes may include convenience, allegiance to brand, or the absence of alternative options. The latter of these options may be seen in the Gifford case, as consumers have a multitude of opportunities to purchase clothing they deem comparable, but may find these opportunities lessened in a specific purchase of technology—in this case, a product containing Foxconn goods. Therefore, we may conclude that, while some elements of the Caring Consumer Game may apply in the case of China and Foxconn, there is no guarantee that these elements will naturally translate through every case.

⁵⁵ The Fair Labor Association, acting on behalf of Apple, conducted the audit. Apple Computers, "Fair Labor Association Begins Inspections of Foxconn." 2012, <http://www.apple.com/pr/library/2012/02/13Fair-Labor-Association-Begins-Inspections-of-Foxconn.html>.

⁵⁶ Gossett and Shorter 2011, 146.

CONCLUSION

Why do corporations operate sweatshops, and why do nations allow them to exist within their borders? Between the payoffs of economics and reputation, there exists a “tipping point” of consumer awareness at which the progression into the Caring Consumer Game begins, but this tipping point is not always reached. Depending on conditions such as economics, law, and socioeconomic factors, the first game may be more easily fulfilled, leading to an increased likelihood of sweatshop labor. Initially, companies operate sweatshops to reap the economic rewards, and nations allow them for the same reason. When reputational rewards are less prevalent, there is a decreased likelihood of evolution away from sweatshops. This game examines the relationship between the two, holding economic benefits to be generally more persuasive than reputational benefits. However, this outcome may be reversed in certain situations, when the final factors of media attention and consumer awareness come into play. These factors determine whether the players will remain in the original model, the Standing Sweatshop Game, or evolve to the alternative model, or the Caring Consumer Game.

Within the case of Nike and Indonesia, we saw a fulfillment of the Standing Sweatshop Game. The nation’s desire for economic benefits, combined with a lack of consumer awareness of the sweatshop problem, allowed these conditions to exist, ending in the existence of sweatshops. On the other hand, we saw the Caring Consumer Game fulfilled in the case of the Kathie Lee Gifford clothing line, manufactured in Honduras.

However, sweatshops may cease to exist for reasons not found solely within the Caring Consumer Game. We may see an example of this in post-World War II Japan, as

the nation passed and enforced several labor laws whilst maintaining a strong economy. During this period, Japan was in the midst of a phenomenon commonly referred to as Japan's post-war "economic miracle," defined by *The Economic Emergence of Modern Japan* as the period that shifted the nation into "one of the world's economic superpowers."⁵⁷ Additionally, in his book *Embracing Defeat: Japan in the Wake of World War II*, author John Dower lists the "promotion of legislation that gave unprecedented rights to organized labor" as a significant reform influenced by the West.⁵⁸ These legal reforms, which included the Labor Standards Act of 1947⁵⁹ and Trade Union Act of 1949,⁶⁰ work in tandem with International Labour Organization (ILO) projects such as the The ILO/Japan Multi-bilateral Programme.⁶¹ Though elements of the Caring Consumer Game are not found, there are few allegations of sweatshops within Japan.

In the case of China, however, we see the existence of sweatshops utilized by Foxconn. As economic benefits are prevalent in one of the world's fastest-growing economies, acquisition of economic power is highly persuasive. Adherence to goals of innovation and economic growth are likely, more so than a complete reversal of human rights trends within China. In this case, unless a social movement of consumer activism sweeps the nation, the presence of spurious factors, combined with a lack of enforcement

⁵⁷ Kozo Yamamura, *The Economic Emergence of Modern Japan* (Cambridge University Press: United Kingdom, 1997), 160.

⁵⁸ John W. Dower, *Embracing Defeat: Japan in the Wake of World War II* (W.W. Norton and Co.: United States, 1999), 560.

⁵⁹ Labor Standards Act, Act No. 49 of April 7, 1947.
http://www.jil.go.jp/english/laborinfo/library/documents/llj_law1-rev.pdf.

⁶⁰ Labor Union Act, Act No. 174 of June 1, 1949.
http://www.jil.go.jp/english/laborinfo/library/documents/llj_law2.pdf.

⁶¹ International Labour Organization, "ILO/Japan Multi-bilateral Programme."
http://www.ilo.org/asia/whatwedo/projects/WCMS_099193/lang--en/index.htm.

of legal provisions and desire for economic benefits, will likely lead the nation to continue to allow sweatshops to be built within their borders.

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ABSTRACT

This study utilizes game theory to illustrate why nations allow sweatshops to operate within their borders, and why consumers continue to purchase the goods that originate there. Through analysis of payoffs, including reputational and economic costs and benefits, predictions may be made concerning the continuing case of Foxconn. Additionally, this study examines the cases of Nike in Indonesia and Kathie Lee Gifford's Wal-Mart line production in Honduras to determine historical fulfillment of the game theory model. The result indicates that economic factors are the most naturally influential, though they may evolve to be prioritized below either a strong legal system or consumer attitudes. This evolution is conditional upon a variety of scenario-specific factors, and does not occur in all cases. Thus, we find the solution in one case is not consistently applicable in all instances of a sweatshop's existence. Two simultaneous-move games are used in solving this puzzle.