



Establishing Jurisdiction of Indonesian Courts in Transnational Contract Case: A Respond to Global Economic Changes

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Abstract. The lack of certainty is often exist in international contract because there are more than one jurisdictions involves. Contract enforcement is crucial to sustain economic growth. Efficient law enforcement will not be achieved without a well-functioning judiciary that resolves contract disputes in a speedy manner, predictable and accessible to the parties. To further develop the economy, Indonesian courts need to support contract law enforcement by having a clear parameter on how to establish jurisdiction over contract involving foreign elements. This would enhance the efficiency of the judiciary, which will result in improving business climate in the country. This paper provides an analysis on how the court can establish its jurisdiction over transnational contract. It will look into the practice of the United States and the United Kingdom experiences. This is a juridical normative analysis that will use cases as the basis of the study. This paper argues that establishing jurisdiction over transnational contract is the starting point for legal protection for parties toward contract breach. Judges need to maintain consistency in determining courts' jurisdiction towards international contract. When judges consistently apply the parameters, the problem of lack of certainty can be overcome accordingly.

Keywords: Transnational Contract, Court Jurisdiction, Judges.

1 Introduction

A transnational or international contract refers to an agreement entered into by many private parties to establish and regulate a business connection that spans across multiple states and involves interactions with one or more foreign legal systems. Why transnational contract matters in today's world is because countries depend each other to fulfill their needs. Therefore, economic cooperation among nations involving private entities is continuously set based on transnational contracts.

Cross-border commerce is complex in nature and poses the risks of uncertainties when disputes arise. The presence of uncertainty arises from various factors, includ-

ing the determination of the appropriate court with jurisdiction, the selection of the applicable national contract law by said court, and the potential challenges associated with enforcing a resulting judgement in a different country [1]. The phenomenon of globalisation has resulted in a transformation of the legal requirements pertaining to contract law, hence causing a rise in the necessity for legal assurance in transactions that transcend national boundaries [1]. Hence, it is imperative to prioritise the promotion of commercial activities through the establishment of effective mechanisms for enforcing contractual agreements, as it serves the collective welfare of the society. This relates to the reliable public legal services related to dispute resolution, especially the judiciary to provide legal certainty [2]. Fail to provide the right responds when dispute arising will eventually lead to lack of trust by foreigners to do business in Indonesia with Indonesian parties [3].

The lack of certainty often exists in transnational contract because each country has its substantive law. This leads to uncertainty as which law to be applied, even though the contract has explicitly stated that Indonesian Law has been chosen as the law of the contract [4]. The norms and rules applicable to transnational contract may have different application and interpretation, let alone the laws and norms in developing countries and industrial countries [4]. Furthermore, it should be noted that the efficacy of public contract enforcement institutions is significantly compromised due to the presence of several uncertainties. These uncertainties pertain to crucial aspects such as determining the appropriate jurisdiction for legal proceedings, identifying the applicable national contract law, and ascertaining the feasibility of enforcing a judgement in a different state [1].

Enhancing the efficiency of the judiciary is a necessary condition to improve business climate. Report by the World Bank in Doing Business 2016 compared to Doing Business 2020 showed that Indonesia received an index score of 6 for quality of judicial processes in 2016, and an index score of 8.9 in 2020 [5]. Based on this result, Indonesia received a score of 62.1 in 2016 and rose to 69.6 in 2020 [6]. According to scholarly discourse, the issue pertaining to Indonesian courts is around their alleged lack of proficiency in terms of expertise, language proficiency, financial implications, and duration of legal proceedings [1]. Most Indonesian feels that court is not the best mechanism to settle the dispute due to the time consuming of the court and very costly in particular [3].

The achievement of efficient contract law enforcement necessitates the presence of a proficient court that effectively resolves contract disputes in a timely way, while also ensuring predictability and accessibility for all parties involved. A well-functioning judiciary that is capable of efficiently enforcing contractual obligations, exhibiting a more advanced credit market, and attaining a better degree of overall development. Furthermore, the presence of an effective law enforcement system, along with a robust judiciary, has been found to be correlated with accelerated economic growth and the promotion of small businesses. This favourable business climate not only encourages innovation but also attracts foreign direct investment and ensures a stable source of tax revenues [4].

Currently, the literature discussing the issue of how the Indonesian judiciary should establish international contract is very limited. Hence, this paper will provide significant contribution in this area. Focus of this paper is how Indonesian court can establish its jurisdiction over transnational contract involving Indonesian party. In doing so, this paper will look closely to the United States (US) and the United Kingdom (UK) cases since these two jurisdictions have a great record of transnational contract enforcement. This paper argues that Indonesian courts need to consistently apply parameters in determining their jurisdiction. The competency of the court may ensure legal protection for contracting parties in case there is breach of contractual obligation [2]. It believes that to determine the competency shall be based on the applicable laws and legal principles so that no party shall use it to evade from their legal obligation and also there is no room for then opponents to state that the said court has no jurisdiction over the case [3]. Judges need to determine the parameters to determine whether the forum has jurisdictional competence to adjudicate a transnational contract dispute and then determine the governing law. When judges consistently apply the parameters, the problem of lack of certainty can be overcome accordingly.

This study pertains to the examination and analysis of legal norms. Secondary data will be obtained through a comprehensive review of existing literature in a library research endeavour. The legal resources that will be studied encompass both primary and secondary sources. The data collection strategy will employ a documentary study approach to examine the aforementioned legal materials. The data analysis will utilise a qualitative approach, specifically employing the technique of categorization to group comparable types of information together.

2 Discussion

2.1 Private International Law's Role

Private international law (PIL) is a legal discipline that aims to ascertain the appropriate application of law in situations where a conflict arises involving many legal systems [5]. The doctrine of private international law (PIL) is invoked by a court when adjudicating a legal dispute that encompasses a foreign element. Private international law, often known as conflict of laws, pertains to the determination of the applicable law in cases where disputes arise between the domestic laws of various countries with regard to private transactions. This implies the existence of a disagreement or financial transaction that encompasses one of the subsequent elements:

1. The inquiry pertains to the determination of applicable jurisdiction in legal matters, specifically focusing on choice of court, forum selection, and the concept of *renvoi*, which involves the transfer of proceedings;
2. Selection of the appropriate legal jurisdiction;
3. The topic under consideration is the recognition and enforcement of a foreign judgement.

When considering matters of procedural nature, it is important to examine the field of global or international civil procedure. Global civil procedure encompasses the set of procedural regulations, customary practises, and societal norms that govern the resolution of transnational disputes through litigation and arbitration. The text aims to address the following inquiries:

1. Which court has jurisdiction to handle the breach of contract;
2. Under what conditions a court's decision may be recognized and enforced in another country?

Both private international law and international civil procedural law utilise connecting variables to determine the appropriate law or the court or arbitral tribunal having jurisdiction. Connecting factors refer to the constituent aspects that establish a connection between a transaction or event and a specific national legislation or jurisdiction.

The primary determining factors in international contracts include the nationality of the involved parties, the domicile or habitual residence of individual parties, the place of incorporation or establishment for legal entities, the location where the contract was formed, the intended place of contract execution, the location of the contract's subject matter, the designated currency for payment, and the specified place of payment.

According to Savigny's idea known as the proximity rule, it is preferable for an international contract to be administered by the legal system that exhibits the closest link to it. The determination of the country that is most closely associated with a contract is entrusted to the judgement of the judge, who must carefully assess all relevant factual elements through a case-specific analysis.

Principles of identification of the governed law consist of two elements:

1. Law of the forum (*lex fori*): the law of the country where the judge sits
2. The law of the contract (*lex causae*): the law of the country which will substantially govern the contractual relationship.

2.2 Transnational Contract

In PIL, the most frequent conflicts come from contracts. As a contract that contains foreign element, transnational contract usually has governing law and choice of forum clause. Governing law of the contract or choice of law provision is a contractual provision that determines which substantive law shall apply in the event of a dispute. Governing law shall be honored by the courts. The parties involved in a contractual agreement typically possess the freedom to select the jurisdiction that will control their legal obligations. In theory, the presence of a relationship between the location of the contracting parties or the subject matter of the agreement is not necessary. Nevertheless, in practical application, the selection of law by the parties involved may

frequently be uncomplicated, relying on established market norms or their familiarity with a particular legal system.

In conjunction with the application of governing law, it is imperative for a transnational contract to include a choice of forum clause. This provision grants the involved parties the authority to establish personal jurisdiction over the courts of the relevant jurisdiction for the purpose of resolving disputes arising from the contractual agreement. The inclusion of a choice of forum clause aims to confer onto a court the authority to exercise "personal jurisdiction" and to determine the appropriate "venue." Personal jurisdiction refers to the legal authority of a court to exert its power and control over a specific party involved in a legal proceeding. A venue refers to the tangible site where a court exercises its jurisdiction. The outcome resulting from the availability of a choice of forum is that the involved parties are obligated to engage in legal proceedings within the forum that has been selected.

Choice of law and choice of forum clauses serve as mechanisms that assist the involved parties in circumventing unnecessary legal proceedings pertaining to the determination of whether court possesses jurisdiction over the parties or the dispute, as well as which legal framework should be applied. According to the source cited [6], it offers a level of predictability in terms of legal outcomes and the jurisdiction in which legal disputes are resolved. The majority of courts will uphold these choices on the condition that they are mutually agreed upon in a sincere manner by both parties. In order for a forum selection clause to be deemed nonbinding and unenforceable, the party seeking to avoid its application must satisfy the burden of proof by establishing that enforcing the clause would be irrational, unjust, or inequitable. Possible evidence that could be presented in support of this claim includes instances of fraud, duress, or undue influence.

The determination of applicable law and jurisdictional venue is contingent upon whether the contract in question is a government contract or a contract between commercial entities. The establishment of a contractual agreement between governments gives rise to inquiries regarding the concept of sovereign immunity. Additionally, it may restrict the selection of a specific legal statute and the acceptance of jurisdiction by a specific judicial body. This article focuses on private contract between enterprises.

Transnational contract is legitimate under the Indonesian law. If Indonesian party involves in an international contract, they free to determine the governing law and the forum of dispute resolution. Such a freedom originates from the principle of freedom of contract stipulated in Article 1338 of the Indonesian Civil Code, alongside with *pacta sunt servanda*.

Even though a foreign judgment is not recognize and cannot be enforced in Indonesia, it does not mean that it is worthless. A foreign judgment can serve as a *prima facie* evidence in the new case to be filed in Indonesia. The court has the authority to determine whether and to what extent the foreign judgment will be used or accepted as documentary evidence. The declaratory statements in the foreign judgment can be used or recognized by Indonesian judges to determine legal relationship between the

parties in dispute. Documentary evidence in the form of authentic deed is the most convincing evidence under the Indonesian civil procedural law. The law does not distinguish whether it is foreign documents or document made in Indonesia, both have the same evidentiary force.

2.3 How Indonesian courts exercise their jurisdiction

In order to determine the jurisdiction of Indonesian courts over international contracts, it is necessary to examine the relevant provisions of Indonesian civil procedural law, including the *Het Herzien Indone-sisch Reglement (HIR)/ Rbg and Reglement op de Rechtvordeiring (RV)*. The significance of presence is crucial under the Indonesian Civil Procedural Law. The initiation of a civil lawsuit is contingent upon the filing of said lawsuit within the jurisdiction of the court where the defendant habitually resides. This principle is commonly referred to as *actor sequitur forum rei*. In the case when the defendant is a legal entity, the determination of its habitual residence is typically based on the location of its legal seat, which is commonly associated with the place of its incorporation. In cases involving many defendants, the plaintiff have the prerogative to select the habitual abode of one party. An exception to this criterion may be permitted in cases where the habitual abode of the defendant is unknown.

Gautama asserts that when establishing regulations pertaining to "international jurisdiction". The jurisdiction in foreign issues within Indonesian judicial practise adheres to the Dutch model, wherein the defendant's domicile primarily affects the allocation of jurisdiction. The Indonesian court is considered to possess international jurisdiction in cases where the defendant resides in Indonesia and is therefore susceptible to being sued under the *forum rei* principle. Therefore, in cases when the defendant's address is unclear, the court that holds jurisdiction is determined by the habitual location of the plaintiff. Therefore, if the defendant does not own a legal residence or an actual residence within the country, the Indonesian court is considered to have jurisdiction, as long as the plaintiff maintains their habitual residence in Indonesia. Another exception to the *forum rei* concept is to the potential for individuals from foreign countries, who do not own a documented address in Indonesia, to be subject to legal action in Indonesian courts for contractual obligations entered into with Indonesian citizens. According to the provisions of the *Reciprocal Enforcement of Foreign Judgements Act (RV)*, it is permissible for a foreign plaintiff to initiate legal proceedings before the Indonesian court [7].

With respect to the matter of forum selection, the Indonesian civil procedural law acknowledges and upholds the principle of freedom of choice of forum. According to Article 118, paragraph (4) of the *HIR*, it is recognised that the parties possess the freedom to select a jurisdiction. Hence, the distinction between foreign legal entities and Indonesian legal entities is not recognised by the Indonesian court, as foreign parties are also permitted to initiate legal proceedings against Indonesian counterparts, provided that the subject matter of the foreign jurisdiction is connected to Indonesian legal entities [2]. According to Article 100 *RV*, it is specified that foreign entities

might be subject to legal proceedings in an Indonesian court if they have entered into commercial agreements with Indonesian legal entities. This article aligns with the principle of safeguarding the rights and interests of individuals under Indonesian law by expanding the jurisdiction of the Court to entertain lawsuits against foreign entities.

As a result, the court's jurisdiction, as agreed upon by the parties, will be acknowledged and upheld. The analysis of Indonesian judicial practise reveals that the courts in Indonesia demonstrate a proficient ability to assert jurisdiction that has been granted to them through the parties' selection of a specific forum [7]. This provision is frequently encountered in the customary maritime transportation agreements (bills of lading) of Indonesian shipping corporations, sometimes in conjunction with a controlling legislation provision. The absence of an option to select the governing law in a chosen forum implies the selection of the *lex fori*. In the realm of Indonesian legal practise, it is common for transnational loan agreements to incorporate a provision that selects the jurisdiction of the foreign lender. This provision effectively removes the Indonesia-based borrower from the purview of the Indonesian courts and its legal system.

2.4 Inconsistencies in Indonesian Court related to Jurisdiction in Transnational Contract

In analyzing how the Indonesian court applies governing law and *lex fori* choice, this paper will look into two cases namely: *Mitomo Shoji v. Bali Energy, et.al.* and *PT Pelayaran Manalagi v. PT Asuransi Harta Aman Pratama, Tbk.*

Mitomo Shoji v. Bali Energy, et al.

The aforementioned case was initiated and brought before the Central Jakarta District Court, as evidenced by the official decision No 359/Pdt.G/2011/PN.Jkt.Pst. Subsequently, an appeal was made to the High Court of Jakarta, which rendered its verdict under No 186/PDT/2014/PT.DKI. The establishment of the legal relationship between the involved parties can be traced back to a contract executed on the 27th of October, 2010. This contract pertained to the financing arrangement of Bali Energy, namely the intended sale of 70% of its shares, as well as the distribution of profits resulting from the sale among the parties involved. The subject of contention pertained to the execution of a contractual agreement entered into by the plaintiff, who is an investor, and the defendants, who comprise stockholders and a guarantor.

According to the terms outlined in the contract, the designated jurisdiction for legal proceedings is the District Court of Tokyo, while the applicable legal framework governing the contract is Japanese Law. The plaintiff, however, initiated legal proceedings by filing a case with the District Court of Central Jakarta. The Defendant asserted that the Plaintiff intentionally included Defendant 4, who is situated in Indonesia, in

the legal proceedings as a means to divert attention away from the District Court of Tokyo.

The Central Jakarta District Court decided that since the defendants reside in different address, the Article 1888 paragraph (2) HIR became applicable. This article allows the plaintiff to choose one of the Defendants' domiciles to file the dispute. Meaning, since the Defendant 4 is Indonesian, domiciles in Indonesia namely Jl. Asia Afrika Central Jakarta, then it is legitimate to file that lawsuit in the District Court of Central Jakarta. In appeal level, the District Court of Jakarta upheld the decision of District Court of Central Jakarta.

Another example that can be examined is the *PT Pelayaran Manalagi v. PT Asuransi Harta Aman Pratama, Tbk.*, as presented in the Supreme Court Decision No. 1935 K/Pdt/2012. This particular case was preceded by the cases 52/Pdt.G/2010/PN,Jkt/Pst and 297/PDT/2011/PT. DKI. Both the plaintiff and the defendant are Indonesian corporations that are parties to a Marine Hull and Machinery Policy Insurance Agreement, which was executed and is in effect in Indonesia. In this agreement, the plaintiff assumes the role of the insured party, while the defendant assumes the role of the insurer. The subject matter of the agreement pertained to a motor vessel named KM Bayu Prima, which was duly registered in Indonesia and in the ownership and operation of the plaintiff. The vessel became engulfed in flames, leading the insurer to assert a complete loss. However, the insurance company rejected this claim. Subsequently, the plaintiff initiated legal proceedings by filing a lawsuit.

The insurance arrangement was subject to the jurisdiction of English law, however it was lodged with the District Court of Central Jakarta. The court dismissed the defendant's claim asserting that the court lacks jurisdiction. The court declared that despite the insurance contract being subject to English law, the party in question did not exercise any discretion with regards to the choice of forum. Therefore, given that the defendant was domiciled within the jurisdiction of Central Jakarta, it is justifiable for the court to undertake an examination of the matter. The decision was upheld by the High Court of Jakarta. Regrettably, the verdict was overruled by the Indonesian Supreme Court on the grounds that, as the insurance arrangement was duly executed, the provision included therein, including the governing law, should be upheld. It is imperative that all agreements be carried out with a sincere intention to fulfil the agreed-upon terms. Due to this rationale, the Supreme Court rendered a decision asserting that the District Court of Central Jakarta lacks jurisdiction over the aforementioned issue. The Indonesian Supreme Court exhibits inconsistencies in its handling of the cases *Mitomi Shoji v. Bali Energi, et al.*, and *PT Pelayaran Manalagi v. PT Asuransi Harta Aman*.

The Indonesian courts need to be consistent in determining jurisdiction when dealing with transnational contract case. This is to provide legal certainty and predictability as a basis for contract law enforcement. Consistency can be achieved by setting up parameters such as:

1. In the event that a contract contains an explicit provision specifying the applicable law, and such provision does not contravene public policy, the court is obligated to respect and enforce the chosen governing law. However, it is important to note that parties cannot, through an explicit selection of law, circumvent the obligatory elements of the law that is most closely related to the contract.
2. In the absence of an explicit clause, the court has the authority to deduce implications based on the contextual factors of the case. When making inferences, the court has the authority to take into account the legislation that is most significantly associated with the contract.

In analyzing how Indonesian court may set the parameters for the shake of consistency in determining their competency, this paper will make comparisons with the United States and The United Kingdom experiences.

1. The US court's experience

One illustrative instance is the court ruling in the case of *Lev v. Aamco Automatic Transmissions* [8], when the Court exercised jurisdiction in opposition to a provision in a franchise agreement that designated Pennsylvania as the forum and applied the laws of New York. The federal court, situated in a New York district, determined that New York law, when applied, does not align with the prevailing practise of upholding choice of court clauses.

The United States Court has the authority to abstain from exercising jurisdiction in favour of a more geographically suitable court. The case of *The Bremen* involved a ruling by the United States Supreme Court, which determined that the choice of forum clause should be upheld. Additionally, it was established that the responsibility of proving that a trial in the contractual forum would be excessively burdensome and inconvenient, to the extent that it would essentially deny the individual their right to a fair trial, rested on *Zapata*. In the absence of such evidence, it is not justifiable, equitable, or rational to assert that it would be unfair, unjust, or irrational to enforce the agreement onto that individual. According to the source provided, [9]. This argument posits that there exists a significant inclination towards selecting a certain jurisdiction for the resolution of disputes arising from business agreements, and places the onus on the defendant to demonstrate the unreasonableness of such a provision.

According to the preamble of the United States Carriage of commodities by Sea Act (COGSA), any agreements pertaining to the transportation of commodities by sea to or from US ports in international trade must adhere to the regulations outlined in this legislation. Section 13 restates the scope of the Act, affirming its applicability to all contracts as delineated in the preamble.

In the legal case of *Indussa Corp v. SS. Ranborg* [10], the court established that the provisions of the Carriage of Goods by Sea Act (COGSA) prohibit an American court from issuing a ruling that could potentially subject a bill of lading, which pertains to an ocean shipment to or from the United States, to litigation in a foreign jurisdiction.

This restriction applies even if the bill of lading includes a clause specifying the application of a non-American law.

2. *The UK court's experience*

In general, the courts in the United Kingdom tend to abstain from asserting jurisdiction in violation of a choice of forum clause that mandates disputes to be resolved exclusively in a foreign court. However, this principle may be overridden if it is determined that conducting legal proceedings in non-UK courts will result in unfairness or injustice [6]. The UK court has the authority to exercise jurisdiction in a manner that goes against a contractual clause, if it deems it necessary for convenience. The *Eleftheria* Case provides clear evidence of the court's decision to stay an action that was initiated in violation of a clause that mandated conflicts be resolved in Greek courts. The court justified its decision by asserting that the plaintiffs had failed to fulfil their obligation of demonstrating a compelling reason to prevent the stay. The judge articulated that the subsequent issues have to be duly considered in the utilisation of the court's prerogative to suspend:

- a. The impact of the location of evidence on the cost and convenience of the trial inside a specific country;
- b. The legislation should be utilised and its distinctions from Indonesian law in significant aspects;
- c. The nations to which the parties are affiliated and the degree of interconnectedness between them;
- d. The question at hand pertains to the defendants' true intentions about their preference for a trial in a foreign jurisdiction, specifically whether they sincerely desire such a trial or if their motivations are primarily driven by the potential procedural benefits it may afford them;
- e. The potential deprivation faced by the plaintiffs in having to pursue legal action in a foreign court includes the loss of security for their claim and the likelihood of an unfair trial due to political, racial, religious, or other factors.

The preceding considerations indicate that the acceptance of a submission is contingent upon two factors: the availability of a suitable venue and the defendant's appropriate service of notice. The submission will be rejected solely in the event that the court lacks jurisdiction to hear the case according to the state's legal framework, or if the agreement pertaining to the venue of the case was procured through deceit, duress, abuse of economic power, or other morally objectionable methods.

The Indonesian court is required to uphold choice of law clauses, unless such clauses are in conflict with public policy or are intended to circumvent necessary parts of the law that are closely related to the contract in question. The enforcement of a choice of forum clause in a specific state should be respected, provided that certain conditions are met. The court has the discretion to reject jurisdiction based on the principle of *forum non conveniens*. Additionally, a choice of forum clause in Indone-

sia will not be given legal effect if the defendant can demonstrate that a trial conducted by the selected court would be unfair or unjust given the circumstances.

3. *What Indonesia can learn from the US and the UK*

Sunaryati Hartono states that in deciding private international law disputes, judge must look into: foreign element, the legal issue of the dispute in relation with the choice of forum/lex fori, the governing law of the contract and adjudicating the dispute in accordance with the governing law chosen [6].

The US and the UK judgment shows consistency in the reasoning. They uphold the view that judges may depart from the governing law chosen by the parties if such application of the law may:

- a. Threatens to disrupt public order;
- b. If no provision in the substantive law regulates the prevailing matter.

However, even if those circumstances take place, lex fori shall apply.

3 Conclusion

The Indonesian judiciary can support economic growth by strengthening its role in contract law enforcement. In respect to transnational contract, the judiciary needs to have a clear guidance and parameters to establish its jurisdiction in order to provide legal certainty and predictability. Case law from the United States and the United Kingdom's experience set good examples on how judges' legal reasoning in determining the jurisdiction is based on theory, principles and sound argument.

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