

It's a small, rich economy that is heavily dependent on exports, especially exports of services. Property related activities account for over a quarter of GDP. It experienced one of the greatest property booms on record, but that boom ended in a bust. It is a low tax economy with fairly flexible markets. Its policymakers have no control over interest rates or the exchange rate.

Sounds like Ireland? In fact, it's Hong Kong. I first visited there in October 1999 when the economy was enjoying a remarkably swift recovery from the property crash triggered by the Asian financial crisis. At the time, I covered Greater China (mainland China, Hong Kong and Taiwan) the Greenspan era Federal Reserve.

In eighteen months following the peak in 1997, house prices in Hong Kong tumbled 40 per cent and rents dropped 20 per cent. Commercial property prices plunged 50 per cent. Real GDP contracted 5 per cent in 1998 -- but only two years later the economy grew a whopping 10 percent. The stock market crashed 60 per cent, but within 12 months had retraced all those losses. Hong Kong's banks came through the crash unscathed.

Why was Hong Kong able to rebound so quickly?

A rapid working off of the overvaluation of property helped. Also, an efficient system for foreclosure allowed the banks to deal promptly with troubled borrowers. Importantly, banking supervisors insisted that banks classify loans based on the soundness of the borrower.

Some analysts argue that government measures helped to stabilise sentiment. The government suspended the release of land for new development, eased some anti-speculation measures, and increased concessionary mortgage lending to eligible homebuyers.

It's hard to tell how much of the recovery owed to good policies or good luck, but we'd do well to pull off something similar.