# The North American co-production model

**Who co-produces with the United States? Trade deficit ratios (TDR) and why USMCA integration matters**

In recent years, the trend toward regionalization has gained strength following the rise of globalization, driving the reconfiguration of value chains to serve final consumption markets and the vertical integration of regional supply chains to mitigate geopolitical and ecological risks, as well as limit exposure to tariffs resulting from trade disputes (OECD, 2017). During Donald Trump's first presidency, measures were implemented to reduce U.S. dependence on China. Meanwhile, the private sector has adopted derisking and decoupling strategies to reorganize its supply chains (McKinsey & Company).

The USMCA presents an opportunity for Mexico, the United States, and Canada to develop vertically integrated value chains (Wilson Quarterly, 2023), reducing dependence on other trade blocs, particularly in the technology sector with Asia. The trade relationship with China remains asymmetrical, unlike intra-USMCA trade, the Asian giant does not purchase U.S. products in proportion to its exports to the U.S. market. In contrast, the U.S. trade deficit with Mexico and Canada reflects the deep integration of North American value chains (Brookings, 2024).

A Congressional Research Service (CRS) report on the U.S. trade deficit and trade policy (CRS, 2018) explains that free trade agreements foster intra-industry trade, that is, the exchange of intermediate goods within the same industry between countries that hold comparative advantages in specific products. In this context, **the trade of intermediate goods blurs the distinction between domestic and foreign production, reinforcing regional supply chain integration.**

To illustrate North America's trade integration, the trade deficits of the United States' five largest trading partners are presented as a proportion of their exports to each country, using the **Trade Deficit Ratio** (TDR).

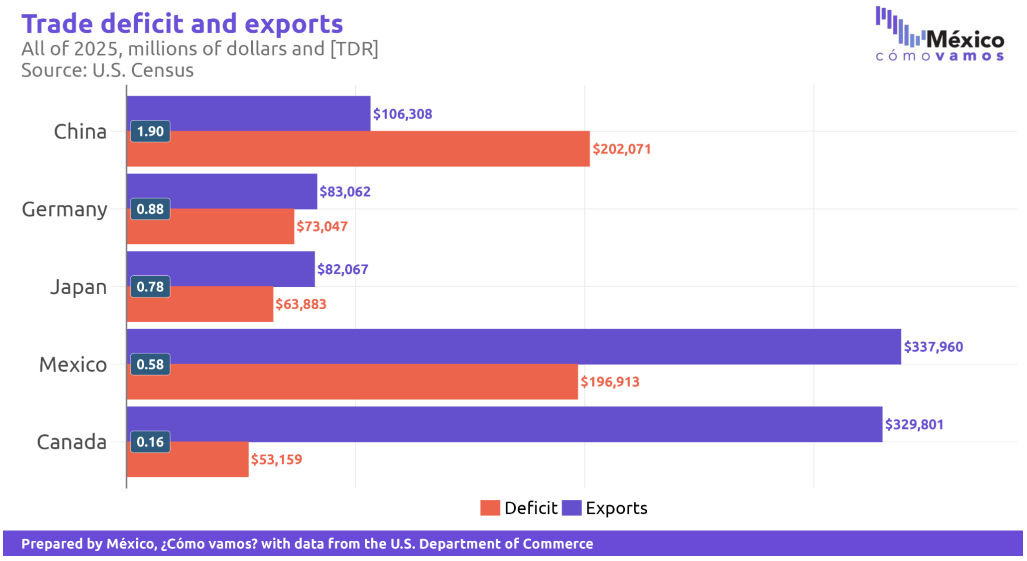
Unlike the simple net balance of trade, this metric offers a deeper view of bilateral relationships by showing what portion of U.S. exports to each country is linked to its trade deficit. In doing so, it underscores both the extent of supply chain integration and the strategic importance of these markets for U.S. exporters.

The TDR measures the U.S. trade deficit with a country relative to the value of U.S. exports to that country. Put simply, it shows how many additional dollars of imports the U.S. brings in for every $1 it exports, highlighting the size of the trade gap in proportion to exports.

| Trade Deficit Ratio | A **TDR** closer to 0 shows a balanced trade. |
|---|---|
| **TDR = 0.50** | For every $1 exported, the U.S. imports an additional $0.50 (total imports = $1.50). |
| **TDR = 1.00** | For every $1 exported, the U.S. imports an additional $1 (total imports = $2.00). |
| **TDR < 0** | The U.S. runs a trade surplus (exports exceed imports). |

- Lower TDR → balanced, co-produced trade (e.g., with Mexico/Canada).
- Higher TDR → one-way import dependency (e.g., with China).

This measure helps us see not just who trades the most with the U.S. but who really **co-produces with the U.S., which underscores why the USMCA integration matters.**




The co-production model is not just a theory; it already works. Nowhere is this clearer than in the automotive industry, where factories across Mexico, the United States, and Canada are linked in a single production chain that drives trade and creates jobs across the region.