North America is a co-production platform

Who co-produces with the United States?

Trade deficits do not tell the whole story. The Trade Deficit Ratio shows whether the U.S. is mostly importing final goods from a country, or also exporting into an integrated production platform.

A deficit with a country can reflect either:

1. One-way import dependence
The U.S. imports a lot, but exports relatively little back.

CHINA

Finished products flow mainly in one direction.

More imports for every $1 exported

TDR = 1.90

2. Integrated co-production
The U.S. imports and exports large volumes because both countries are part of the same production chain.

MEXICO & CANADA

Products are made together across borders.

TDR = 0.58 (Mexico)
TDR = 0.16 (Canada)

Why regular trade deficit charts fall short?

Unlike the simple net balance of trade, the Trade Deficit Ratio (TDR) offers a deeper view of bilateral relationships by underscoring both the extent of supply chain integration and the strategic importance of these markets for U.S. exporters.

How to read the Trade Deficit Ratio

FORMULA: TDR = U.S. trade deficit with a country (Imports - Exports) / U.S. exports to that country

It shows how many additional dollars the U.S. imports for every $1 it exports.

A lower ratio means the U.S. is not only importing from that partner. It is also exporting into a shared production platform.

- 1.00 — **TDR = 1.00** For every $1 exported, the U.S. imports an additional $1.00.
- 0.50 — **TDR = 0.50** For every $1 exported, the U.S. imports an additional $0.50.
- <0 — **TDR < 0** The U.S. exports more than it imports (trade surplus).

What is the TDR of the U.S with some of its main trading partners?

FOR EVERY $1 EXPORTED BY THE U.S. TO THIS COUNTRY.

	CHINA	GERMANY	JAPAN	MEXICO	CANADA
TDR	TDR = 1.90	TDR = 0.88	TDR = 0.78	TDR = 0.58	TDR = 0.16
U.S. imports	$1.90 more	$0.88 more	$0.78 more	$0.58 more	$0.16 more
$1 →	$1.90	$0.88	$0.78	$0.58	$0.16
	Large TDR	Moderate TDR	Moderate TDR	Small TDR	Very Small TDR

Source: U.S. Department of Commerce, 2025 annual goods trade data. MCV calculations for Trade Deficit Ratio.

North America is not just a trade bloc. It is a production platform.

Under USMCA, the U.S., Mexico, and Canada exchange intermediate goods, components, services, and inputs across borders before a final product reaches consumers.

North American trade is driven by co-production.

Parts and components cross borders multiple times before a final product is assembled.

As a result, Trade Deficit Ratios (TDRs) with Mexico and Canada are much lower than with China, reflecting more integrated supply chains, stronger manufacturing competitiveness, and greater regional economic security.

The USMCA is key to a vertically integrated value chain

Why does having a successful review matters for the competitiveness of the region? Free trade agreements foster intra-industry trade—the exchange of intermediate goods within the same industry between countries (CRS, 2018).

- Trade of intermediate goods blurs the distinction between domestic and foreign production, reinforcing regional supply chain integration.
- The region can reduce dependence on other trade blocs, particularly in the technology sector with Asia.
- It strengthens industries where the co-production model already exists like in the automotive industry, where factories across the 3 countries are linked in a single production chain that drives trade and creates jobs across the region.

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