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Two-step Immigration Selection: A Review of Benefits and Potential Challenges

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Two-step Immigration Selection: A Review of Benefits and Potential Challenges

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In a two-step immigration selection process, temporary foreign workers are first selected by employers for a temporary job, and some qualified temporary foreign workers then become economic immigrants. The details of this selection process vary among countries. For example, in the US, the temporary workers are typically sponsored by the employers in their bid to become permanent residents. In Canada, the temporary residents are selected for permanent residency by the government based on a set of largely human capital criteria, although employers may play a role in some selection pathways. Viewed in a generic manner, the two-step process presents both advantages and risks. This article provides an overview of such potential advantages and risks.

It is the first of five articles on the two-step selection process.

Introduction

In Canada, like many other Western countries, temporary foreign workers have become an important pool from which permanent immigrants are drawn. In 2018, almost one-half of economic immigrants came from that pool. Selecting economic immigrants from former temporary foreign workers is essentially a “two-step migration” process. Under this process, skilled migrants first obtain temporary resident status to work or to study. Their skills and qualifications are evaluated by Canadian employers when they are looking for jobs and further tested while they are on the job. Secondly, the temporary resident applies for permanent residency and is selected based on criteria outlined in either the provincial or federal economic immigrant programs. The employment and/or study experience in the receiving country as a temporary resident often strengthens qualifications for the pathway to permanent residency as an economic immigrant, viewed as a signal of relevant and in-demand labour market skills.

An increasing role within selection for employers is a key feature of the trend towards two-step immigration. However, the role played by employers can vary considerably, depending on the system. There is a noteworthy difference between the United States (US) employer-selection and Canada’s two-step selection. In both countries, employers do the selection in hiring and retaining temporary foreign workers. However, while US employers further sponsor temporary foreign workers for the application of permanent residency (by way of a job offer), employers in Canada do not generally play a direct role in the second step. The US employment-based immigration has mainly operated through employer sponsorship. The selection mechanism typically involves two

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steps. First, skilled foreign workers are recruited by US employers through temporary work visas (e.g., the H-1B visa), and second, they may transition to permanent residency via employer sponsorship. In Canada, temporary workers seeking to transition still need to go through the points system, although employers still play a large role in the selection of some skilled workers, such as those landing in the Provincial Nominee Programs.¹

Given the trend towards two-step immigration, it is imperative to monitor and better understand the resulting implications for immigrant labour market outcomes and impacts in Canada. This article is the first of a five-part series that provides a broad overview of the increasing importance of temporary foreign workers in the selection and labour market outcomes of new immigrants in Canada. This article reviews the literature on the advantages and potential risks of two-step immigration selection as practiced in several countries, including Canada. The remaining four articles cover the following topics:

- the expansion of two-step immigration selection in Canada since the early 2000s,
- the link between the expansion of two-step immigration and the recent improvement in immigrants' labour market outcomes,
- the role of two-step immigration in accounting for differences in labour market outcomes of economic immigrants in various admission programs
- a comparison of the effects of the two-step immigration and pre-arranged jobs on immigrants' labour market outcomes.

The advantages of two-step immigration selection

The two-step migration process has been argued to combine the beneficial attributes from both demand-driven (employer based) and points-based (human capital based) selection systems, with the objective to improve outcomes for immigrants, employers, society, and the economy (e.g., Papademetriou and Hooper 2019; Hawthorne 2010). Under this approach to migration, the receiving country has the opportunity to 'try out' potential migrants before allowing them to stay permanently, while migrants similarly have the chance to test out life in the receiving country before making a decision on whether to make the move permanent (Spinks 2016). The evolution of the migration process to this point in several countries, including Canada, Australia, and New Zealand has been positioned as a migration system advancement (e.g., Papademetriou and Hooper 2019; Spinks 2016; Hawthorne 2010).

Primary among the reasons cited as improvements are better labour market integration among immigrants with previous temporary experience in the receiving country. Empirical research generally finds immigrants with previous temporary experience in the receiving country have higher initial employment rate and earnings than those without such experience (e.g., Boucher and Davidson 2019; Gregory 2014; Hawthorne 2015; Hou and Picot 2016; Papademetriou and

1. For example, with the exception of Quebec, Saskatchewan, and Manitoba, the skilled worker component of Provincial Nominee Programs generally requires an employer to sponsor the applicant for permanent residency. Several pilot projects currently under way in Canada also require employer sponsorship in the application for permanent residency (e.g., Atlantic Immigration Pilot; Rural and Northern Immigration Pilot). With the introduction of the Canadian Express Entry (EE) application management system in 2015, points available for a job offer almost guaranteed permanent resident status; in 2016, however, the points available from employer sponsorship were reduced considerably in order to rebalance the ranking system and to improve the chance for more highly skilled candidates (IRCC 2017).

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Hooper 2019; Sweetman and Warman 2014). Some research suggests that these labour market advantages may persist in the longer run (Hou and Bonikowska 2018).

Immigrants with prior work experience as temporary residents are unlikely to experience the same difficulty with the portability of their human capital as migrants without previous local experience because their skills have already been recognized in the receiving country by at least one employer (Ferrer, Picot, and Riddell 2014). Previous connections with domestic employers and educational institutions make it more likely an immigrant's foreign work experience will be valued and educational credentials will be recognized. Furthermore, an immigrant with previous temporary experience will have presumably worked and/or studied in the official language, and therefore not have significant language barriers to overcome (Papademetriou and Hooper 2019).

Perhaps one of the most important aspects of an at least partially demand driven system is that it facilitates better job-skills match than one-step migration (Mares 2017). Employers being able to recruit according to their specific needs - and in a timely manner - is key for productivity. When employers are able to find adequate work resources, and when the skills of employees are matched with their employment, resources are used most efficiently (the effects of skill mismatch on productivity is a loss of work potential through inefficient resource reallocation). A close job-skills match is advantageous because productivity and wages are higher when workers can effectively implement their experience and education-related skills. Moreover, under the two-step migration process, skills have not only already been proven relevant to the host labour market, there is also less chance of skills atrophy if a temporary migrant is working within the country while applying for permanent residency.

Immigrants who have successful previous experience in host country workplaces and educational institutions may have acquired relevant social network and interpersonal skills such as the ability to communicate well with other people and to work in a team. A familiarity with host country workplaces and institutions can be an advantage with respect to outcomes relative to those who do not have such experience. Immigrants' interpersonal competencies are often an important consideration of employers' hiring decision (Boucher and Davidson 2019). Papademetriou, Benton, and Hooper (2019) suggest that employer sponsored pathways, particularly temporary-to-permanent pathways that allow employers to test workers on the job and allow workers to demonstrate their adaptability to the local labour market, are well positioned to measure these traits.

One of the attractions of the two-step migration process is the inherent potential to facilitate the recruitment and retention of immigrant workers to build up the populations and labour forces in areas outside large metropolitan cities. Temporary pathways offer more scope for stipulating certain conditions such as where temporary foreign workers can settle and for how long. Regional immigration programs are often centered on temporary to permanent pathways, initially setting parameters on where a migrant can settle and work, and encouraging them to put down roots instead of moving on to more cosmopolitan cities (though once this period expires, they are free to relocate) (Papademetriou, Benton, and Hooper 2019). Moreover, the employer driven aspect of the temporary visas means many migrants are filling a specific regional labour market need. This can contribute to the economic stability and growth of these communities. As a result, the two-step migration process provides an opportunity to contribute to addressing regional labour market and population needs.

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The case is often made by the business sector that the two-step migration process can enhance a company's ability to compete globally to attract the 'best and the brightest'. A clear pathway from temporary to permanent residence is appreciated by firms who are looking to hire foreign talent and can encourage them to set up - and to stay - in the host country. Access to permanent residence and, over time, citizenship, and the rights associated with these statuses (such as family reunification and access to health services and education and training), all form part of the calculus that shapes where immigrants decide to move and settle (Papademetriou, Benton, and Hooper 2019).

More generally, the two-step migration process is often heralded to promote a smoother integration process of migrants and thereby contribute to social cohesion. Temporary residents have demonstrated their ability to settle, particularly those with a skilled job offer, leading to a smoother transition as a permanent resident. By providing a clear pathway to permanent residence, the two-step migration process can reduce uncertainty for employers and immigrants, encouraging immigrants to invest in their integration, for example, by linking eligibility for permanent residence with maintaining employment, developing their language skills, integrating socially, or other priorities (such as paying taxes) (Papademetriou, Benton, and Hooper 2019).

It is important to note that temporary residents are generally a heterogeneous group in terms of skills. Initial economic outcomes vary significantly among different groups of temporary foreign workers. Research based on Canadian data by Hou and Bonikowska (2018) finds former temporary residents with work permits for skilled jobs had much higher initial earnings than immigrants without any prior Canadian experience. By comparison, former temporary residents with work permits for non-skilled jobs were found to have significantly lower initial earnings than immigrants without any prior Canadian experience.

Potential risks of two-step immigration selection

There are risks associated with the two-step immigration process. One important aspect relates to the potential for worker exploitation. Temporary workers may be put in a vulnerable position when they are attached to, and dependent on, an employer in order to hold the job that may qualify them or provide for them the means by which to become permanent residents (if the selection system is set up in that manner). Temporary workers may tolerate being underpaid, working excessive working hours, and working under unsafe conditions out of a fear of getting offside with an employer who plays a major role in their pathway to permanent residence (Mares 2017). In the US, Lowell and Avato (2014) argue that legal stipulations that employers must pay a prevailing wage do not ensure that they do so, finding that temporary workers (H-1Bs) on average earn significantly less than the native-born. Moreover, under an employer-driven system, migrants may be selected less for their ability to contribute to key areas of skills shortage or long-term human capital needs but more based on behavioural traits, such as their potential compliance, further increasing the risk of exploitation (Boucher and Davidson 2019).

Several studies have identified a "tension" associated with the two-step migration process related to the uncapped nature of the temporary migration stream in contrast to the capped permanent migration stream. Referencing the Australian context, Gregory (2014) describes the allocation of visas with work entitlements for temporary migrants as "privatized and uncapped", wherein educational institutions choose the number of fee-paying international students and businesses choose the number of migrants employed on a temporary basis; in contrast, the allocation of permanent visas is government-led and capped. Gregory suggests there are political and

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economic implications of the tensions this system creates, ones that “will become increasingly important as the pool of temporary migrants expands (uncapped) and if government decides to reduce the permanent immigrant intake (capped).”

Uncapped temporary programs may run the risk of being used more as a means to an end (e.g., permanent residency) than for intended purposes. Gregory (2014) argues that a feature of a two-step migration system is the creation of a large pool of temporary migrants with work entitlements, not all of who will subsequently acquire permanent status. If temporary foreign worker programs increase in size as a result of being used as a pathway to gain permanent residency, the pool of temporary residents could become diluted along the lines of quality of skills. Gross (2014) suggests uncapped temporary foreign worker entries may negatively impact efforts of employers to fill, and workers to find, vacancies in the labour market. In other words, the market forces of supply and demand become harder to read by all players.

Increasing the number of workers on temporary work visas may raise complications such as the potential to displace domestic workers and to put downward pressure on the wages of domestic workers. Increased access to a pool of temporary workers has been shown to increase the unemployment rate among domestic workers in Canada (e.g., Gross 2014). In Australia, Boucher and Davidson (2019) argue that undue reliance on the Working Holiday Maker Visa has led to wage evasion among employers and has allowed employers and the government to avoid taking active steps to address domestic labour shortages either by offering higher wages or increasing job training opportunities to upskill domestic workers. Although acknowledging it is difficult to prove a causal link, these authors also raise the issue of a potential relationship between an increase in temporary labour and the flight of local workers from agricultural areas in Australia. There are trade-offs to be considered with respect to increasing the number of temporary foreign workers and producing a larger selection pool for permanent residents (Hou and Picot 2016).

At the same time, filling labour market shortages with temporary residents with a pathway to transition to permanent residency raises the chance of neglecting domestic workers and their skill development (e.g., to ensure shortages are addressed in the long-term through domestic education and skills training policies and programmes). When labour market shortages are filled by temporary foreign labour, domestic market forces may not be able to send adequate signals of adjustment to address the shortage domestically. Such market forces include price signals (e.g., wages) to domestic workers, employers, and educational institutions regarding the nature, location and availability of jobs, as well as training needs. An approach to meeting labour demand that relies too heavily on immigration reduces incentives for employers and policy makers to strengthen education and training systems to build and update the skill base and employability of the whole population (Papademetriou, Benton, and Hooper 2019).

Another common concern surrounding the two-step migration process is that short-term labour market needs are addressed at the cost of long-term needs. Boucher and Davidson (2019) argue that as the system becomes more employer driven, there is a risk that selection power will move from the government into the hands of individual firms and employers. As a result, the selection of new immigrants may come to prioritize short-term demand (in the interest of individual employers and firms) over longer-term competitiveness and human capital development (the responsibility of government). Simply put, temporary work visas may be used to address

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short-term skill gaps, or fill immediate job vacancies related to turnover rather than shortages. This could set up the risk that those holding such jobs may transition to permanency, despite no longer term demand or skill shortage in their occupations (Bedford and Spoonley 2014).

In a similar vein, Papademetriou and Hooper (2019) argue that while employer-sponsored programs are an effective tool for filling jobs, they are not effective in addressing the longer-term needs of the labour market and broader economy. These authors describe the challenge as one of ensuring that while meeting current labour or skills needs, governments do not overlook workers with skills that will become ever more valuable in the medium and long-term. In other words, to select immigrants with the ability to adapt to fast-changing labour markets who can thrive even if the first jobs they hold after immigrating disappear.

Summary

The Canadian and international experiences suggest that two-step immigration selection can have significant advantages over selecting economic immigrants directly from abroad. Immigrants who go through two-step selection tend to have higher initial employment rates and earnings than immigrants who do not have work experience in the receiving-country labour market. This advantage likely persists in the longer run as well, although the research is not definitive. Two-step selection can improve the match between immigrant skills and labour market demands because employers can directly assess temporary foreign workers' skills and intangible qualities, while foreign workers can test out life in the receiving country before deciding whether to seek permanent residency. Immigrants who performed well as temporary foreign workers are unlikely to face the same difficulty with the portability of their human capital as immigrants without receiving-country experience. The two-step immigration process can be an efficient avenue to fill a specific regional labour market need, and contribute to the economic development and population growth in local communities outside of major metropolitan areas.

If employers are given a predominant role in the two-step immigration process, there is a risk temporary foreign workers may be subject to poor working conditions, including being underpaid, excessive working hours, and unsafe workplaces. A large pool of temporary foreign workers may raise complications such as the potential to displace domestic workers and to put downward pressure on the wages of domestic workers. Relying on temporary residents with a pathway to transition to permanent residency may reduce incentives for employers and governments to strengthen education and training systems for domestic workers. Most importantly, employers in search of low-cost labour may prioritize short-term demand over longer-term competitiveness, and thus employer-sponsored programs are not effective in addressing the long-term needs of the labour market and broader economy.

Some potential risks associated with dependence on temporary foreign workers are exacerbated during the present COVID-19 pandemic. For instance, the crop production and horticulture industries, where seasonal foreign agricultural workers accounted for over one-fifth of the workforce in recent years, face serious uncertainty as the inflow of temporary foreign workers is disrupted due to travel restrictions in some source countries and the mandatory 14-day self-isolation requirement upon arrival (Lu 2020). In other words, the established reliance on temporary foreign workers in these industries could ultimately test the stability of Canada's food supply chain through labour shortages and wasted crops. At the same time, some temporary

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foreign workers continue to work on the front lines of the COVID-19 pandemic, employed at meat processing plants or as caregivers, orderlies, and security agents. While they are doing the jobs essential in society's response to the pandemic, they put themselves at risk for exposure to virus infection. Temporary foreign workers are also over-represented in some hard-hit industries, including accommodation and food services, and personal and private household services. The closure of businesses or limited operations in these industries led to massive layoffs or reduced working hours among temporary foreign workers.

Compared with the US employer-sponsored economic immigration selection system, Canada's two-step selection process limits the role of the employer to the first step – the selection of temporary foreign workers in their initial job placement, while maintaining government's control in the second step – the selection of economic immigrants from among temporary foreign workers. In this sense, the Canadian system has a built-in mechanism to mitigate some of the potential risks associated with employer-selection.

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