

The immigration balancing act

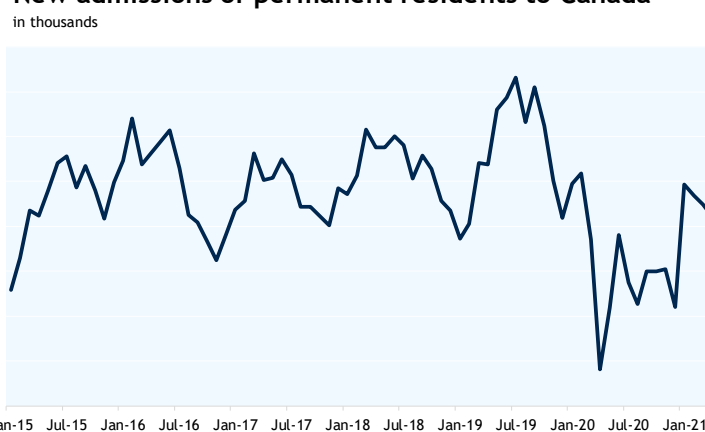
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Canada could benefit from making some recent immigration policy innovations permanent

Canada last week gave 23,000 people approved for permanent residency the green light to enter the country. It was another signal that immigration levels are normalizing after the country missed out on 170,000 new permanent residents last year.

But as with other spheres, Canada’s immigration system could benefit from a rethink in the post-COVID period. While a focus on making up for 2020’s shortfall is a critical goal, over the longer term Canada would benefit from a more responsive approach to immigration: one that addressed labour-force gaps and targeted the world’s best talent all while helping to offset domestic aging. During the pandemic era, the government has already shown some flexibility on immigration—notably in its effort to convert more of the 1.2 million people already here temporarily into permanent residents. Innovative approaches like this could help Canada reap more benefits from the ambitious immigration targets it has set for the years ahead.

New admissions of permanent residents to Canada



Source: IRCC, RBC Economics

Aging, shifting skills needs bolster the case for immigration

Even before the pandemic hit, an older Canada was set to strain public finances. Over this decade, provincial health expenditures were expected to increase by at least \$35 billion per year (in today’s dollars) from aging alone. The pandemic laid bare the need for even greater investments, particularly in long-term care. Even with some of the highest immigrant inflows in the developed world, the current trajectory won’t prevent a decline in Canada’s working-age population—a cohort that’s critical to supporting higher public spending.

Canada needs immigrants with future-focused skills as Canada’s labour markets adapt to the post-pandemic recovery. The acceleration of digital, AI and green technologies, infrastructure needs, and greater health care investments will create more demand for people in advanced technology occupations, skilled tradespeople and health care workers, among others. Labour shortages are already evident in several of these areas. While Canada needs to invest in skills training and education for its current population, immigration is critical to meeting shifting labour-market demands.

	2020-2030 (average)	New immigration target made permanent	Keep equal the ratio (15-64) / 65+, 2020 level
Increase in total population/year from immigration		1.00%	2.00%
Number of immigrants/year		420,000	750,000
Share of seniors as % of overall population in 2030		22.20%	21%

Source: Statistics Canada, RBC Economics

The challenge: making higher numbers work

To make the most of higher immigration numbers, Canada would do well to confront two major headwinds: increasing competition for talent, and Canada's own mixed track record of integrating immigrant workers.

With many economies facing the same post-COVID challenges around the shifting nature of work, the competition for skilled immigrants will only get fiercer. Canada could use expanded remote work and remote education options as a competitive advantage to develop connections with potential immigrants. It's already facing the prospect of more direct competition from the U.S., with the Biden administration reversing Trump-era limits on tech visas.

Then there's the longstanding issue of immigrants to Canada being underemployed relative to their credentials and skills. While this mismatch improves over time, over the long term average immigrant wages are 10% below those of the Canadian-born population—a problem that costs the Canadian economy as much as [\\$50 billion a year](#). The reasons—including the thorny issue of assessing foreign credentials, and employers' tendency to discount international experience—are well known.

The post-pandemic recovery period may make the challenge of integrating new immigrants that much tougher. Research strongly suggests that on average even high levels of immigration can be supported without much disruption to workers already here, but less is known about its impact when labour markets are still in recovery. New immigrants tended to work in the Canadian sectors that were most impacted by pandemic-era lockdowns. They were more likely to lose their jobs in the initial shutdowns and slower to return to employment afterwards. Significant new immigration could exacerbate these short-term challenges.

Government's COVID policy response

Recognizing that it needed to get immigration back on track, Canada was one of the few developed countries to increase immigration targets at the height of the pandemic. The new targets (400,000-plus newcomers in each of the next three years) would make up for 2020's shortfall.

The government's practical solution to increasing immigration despite closed borders was to draw on Canada's sizable non-permanent resident population. In recent months, the government expanded the Express Entry program (the main program for economic channel permanent residents), inviting nearly double the number in the first six months of 2021 than it did in the same period in 2019. These new permanent residents were drawn almost entirely from programs that often require Canadian work experience. Combined with new pathways for temporary workers in specific in-demand occupations and former international students with some Canadian work experience, it helped meet labour-market shortages while moderating weakness in certain sectors.

Policy innovations could be made permanent

There's evidence that those who immigrate after spending some time in Canada on a temporary basis do significantly better than those who do not. On that basis, the government should evaluate the experience of these new permanent residents and consider extending these policies beyond the period of closed borders and lockdowns. Doing so could encourage better labour-market matches and accelerated transitions, supporting both high levels of immigration and new immigrant integration.

In particular, Canada should continue to encourage temporary-to-permanent resident transitions. Canada has 1 million-plus temporary residents with Canadian work and schooling experience that could mean successful transition into the labour market. This includes nearly 540,000 temporary workers and just over 400,000 post-secondary students. Historically, temporary residents have represented less than 25% of new permanent residents, while less than a third of post-graduate visa holders – a particularly promising source of permanent residents – have landed permanently within 10 years of their first study permit.

In line with the government's creation of new pathways for those in specific in-demand fields such as health care and other essential services, economic immigration programs could place greater emphasis on responding to labour market conditions. For exam-

ple, in 2019, only 305 nurses and less than 2,000 skilled trades persons immigrated as permanent residents through economic immigration programs in the face of rising job vacancy rates and labour shortages in these sectors. And the demand is there for the 90,000 new permanent resident slots announced for former students, health care and essential occupations, 60,000 applications have already been received.

Canada also needs to replenish the temporary resident pool and clarify permanent residency pathways. Temporary worker programs will continue to be used to fill labour shortages during times of tight labour markets. In some cases, temporary resident programs should provide a more forward-looking assessment of potential gaps. Programs like the Global Talent Stream only focus on a limited set of occupations such as computer and design. And despite separate programs to attract those in the skilled trades, both the number of temporary and permanent immigrants working in these occupations remains low. Clarifying pathways that exist for temporary residents to become permanent can help Canada attract global talent and promising prospects for future permanent residents.